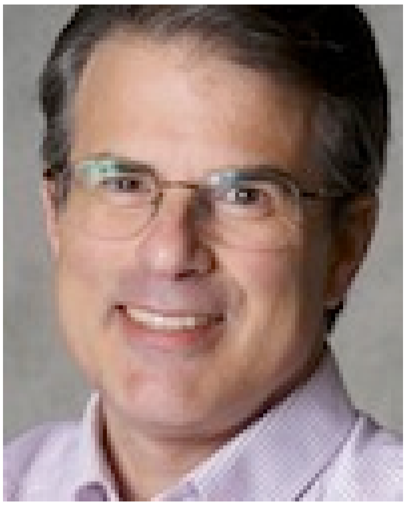
Nationwide wants five pieces of the in-plan annuity market

By Kerry Pechter *Thu, Oct 22, 2020*

Nationwide, the 10th-largest annuity issuer in the US and a provider of about 34,500 retirement plans, is launching a cluster of in-plan annuities. RIJ talks with Eric Stevenson, president of Nationwide Retirement Plans since mid-2019.



Nationwide Financial announced this week that, starting in late 2020, it will introduce or begin marketing the first of at least five annuity products to sponsors of qualified retirement plan markets.

The first in-plan product will be a fixed indexed annuity for safe accumulation, said Eric Stevenson, president of Nationwide Retirement Plans since July 2019. Lifetime income riders and possibly deferred income annuities will follow.

Eric Stevenson

"We'll take money starting in December. That's when we have our marketing launch. It's a fixed indexed annuity inside a retirement plan, and we believe that it's the first product of its kind in the [institutional] market," Stevenson told *RIJ* this week. "Typically, if you buy a retail annuity, you'll pay a commission and have a CDSC [i.e., a penalty for early surrender]. But this will be inside the plan." As a result, he said, costs will be much lower than in retail products.

According to *PlanSponsor* magazine, Nationwide is the ninth largest provider of retirement plans in the US by number of plans administered (about 34,500), with about $145 billion in participant assets. It is the top provider of governmental retirement plans (457 plans). It ranks 12th in numbers of participants, with about 2.74 million. Its business is concentrated in plans with under $10 million in assets (35%) and more than $200 million in assets (43%).

As of mid-2020, Nationwide was the tenth largest issuer of retail annuities, with first-half sales of $3.9 billion. That included $1.99 billion in fixed annuity sales (10th) and $1.9 billion in variable annuity sales (9th), according to LIMRA Secure Retirement Institute.

“In-plan annuities” are not new. Life insurers have been pitching lifetime income riders on target date funds for several years, but with little penetration. But the SECURE Act, which became effective at the start of 2020, is expected to encourage the adoption of annuities by plan sponsors as investment alternatives for participants.

The SECURE Act gives plan sponsors a specific method for choosing an annuity provider which, if followed, will reduce their risk of being sued for choosing a provider who, years or decades into the future, fails to meet its obligations to policyholders. It also allows participants to take their annuities with them if they change jobs.

Stevenson positions the FIA, whose gains are tied to equity indices through the purchase of options on the index, as a potentially higher-yielding replacement for low-yielding stable value funds in retirement plans. The value of the FIA would be reset once a year, but allocations to the fund would be fully liquid, according to the rules of the plan.

That product, to be introduced later this year, is an accumulation product. Regarding the in-plan income solutions that Nationwide expects to introduce next year, they will be income riders on target date funds. Stevenson didn’t say who the TDF provider might be; the top issuers of TDFs are Fidelity, Vanguard and T. Rowe Price, but Nationwide and other fund companies also offer them.

“We may use our own [TDFs], but we’re looking to work with partners,” he told *RIJ*.

TDFs are funds-of-funds whose asset allocations gradually become more conservative as an investor nears retirement. TDFs are also qualified default investment alternatives. That is, if new employees don’t actively choose to participate in a plan, the employer can auto-enroll them into it and allocate their contributions to a TDF.

“There are a number of ways to solve for income,” Stevenson told RIJ. “This is a new space. We’re not pretending to know what the right answer is. We’ll work with plan sponsors, advisers and 401(k) consultants to make sure we provide the right solution for each plan.”

Nationwide is one of three insurance companies that offer lifetime income riders to participants in the United Technologies 401(k) plan. Each month, the three insurers bid against each other for the right to wrap their income riders around participant contributions to an AllianceBernstein TDF. The low bidder gets most of that month's business while the other two split what's left. Stevenson said that Nationwide is also looking at offering a deferred income annuity as an in-plan option.

Other annuity issuers are expected to capitalize on the opportunity provided by the SECURE Act. Last July, Lincoln Financial announced its PathBuilder annuity. The annual cost of the income option is 0.9% of the guaranteed income base (which may be higher than the actual account value, since it is protected against loss). At age 65, the payout rate for a married couple would be 4.5% of the income base per year, according to a PathBuilder brochure.

Stevenson said his target customers will be plan sponsors and their advisers or consultants. Although the SECURE Act also allows for the creation of Pooled Plan Providers (PPPs) and Pooled Employer Plans (PEPs)—single retirement plans that many companies can join—Stevenson did not expect Nationwide to market its in-plan annuities to PPPs or other sponsors of PEPs.

While it's clear that annuity issuers want greater access to participants in 401(k) and other qualified retirement plans, participant demand for in-plan annuities is unproven. Industry-sponsored surveys show that 401(k) participants, like most Americans, want a source of safe income in retirement. But whether that will translate into allocations to annuities in retirement plans remains to be seen.

The Fed's low interest rate policy also forces annuity issuers to charge more for their guarantees because they earn less on their own investments. A lifetime income rider on a TDF, as noted above, can place 90 basis points (0.90%) of drag on the growth of the investments that are protected by the rider. Meanwhile, plan sponsors feel pressure (from class action lawsuits) to minimize the fees of their retirement plans. The SECURE Act is expected to add a tailwind to the adoption of in-plan annuities, but low rates could present a headwind.