
Participants still not focused on income: Cerulli

By Editorial Staff Thu, Jul 23, 2015

Cerulli also asked asset managers, broker-dealers and insurance companies what income product they thought will appeal most to plan sponsors. Forty-one percent said "asset management-only" products.

Systematic withdrawal products, provided by asset managers, are considered the "most attractive retirement income sales option during the next five years" in the retirement plan space, according to The Cerulli Edge (Retirement Edition), published by Cerulli Associates.

Cerulli asked asset managers, broker-dealers and insurance companies what income product they thought would sell best to plan sponsors and participants. Forty-one percent said "asset management-only" products, 18% named hybrid products such as variable annuities, and 14% said insurance-only products such as deferred income annuities.

The asset management products might include "dividend drawdown selections that involve the asset manager's ability to create a product enabling the individual to withdraw a certain amount based on the investments of the underlying product," Cerulli analysts observed.

"Instead of waiting for the request for a retirement income product, asset managers need to have their foot in the door with two types of products: one in which the insurance company manages a component and one without, in case opportunity knocks," analysts suggested.

Behavioral issues, as opposed to financial or legal liability issues, may be the biggest obstacles to the introduction of income products in workplace retirement plans, Cerulli noted. Most participants have not yet made the conceptual leap from looking at the account balances in absolute terms to looking at them as the present value of a life annuity or annuity-like income stream.

"The movement away from defined benefit plans to defined contribution has placed a significant portion of the retirement savings burden on employees, without really transferring the investment knowledge, risk management, or know-how that should accompany it," states Shaan Duggal, research analyst at Cerulli, in a release.

"Most plan participants lack basic information about what their account balance means in terms of retirement income. As more Baby Boomers approach retirement, the issue of ongoing income, especially to pay for healthcare, assumes added urgency."

Approximately 80% of respondents to their annual plan participant survey indicate that when checking their account statements, they consider the investment performance or their account balance to be the most important information, Cerulli's newsletter said.

"Those in the 60-69 age range appear to pay the most attention to projected retirement income, but in the aggregate, this is not the case," the release said.

Cerulli research shows that the majority of 401(k) participants report checking their balances on a quarterly or monthly basis, indicating a reasonable level interest in the growth of their retirement account.

"There should be a concerted effort to change the mindset of the average saver. Accumulating a sizable balance and achieving high investment return on a yearly basis are beneficial, but if that balance doesn't match the projected retirement expenses, there will likely be a shortfall," Duggal said.

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