
Pensionizing the 401(k) with Annuities

By Terrence Dopp *Thu, Feb 10, 2022*

Historically, workers couldn't set up guaranteed retirement income streams directly through their 401(k) accounts. But that's changing, and the annuity industry sees it as a big opportunity, according to this report by an AM Best writer.

When people review their 401(k) or 403(b) retirement plans this year, they might have a new investment option: using some of their money to purchase income annuities. And that may prove to be a growth opportunity for the industry, which is already posting strong results in the past year.

While the option is still in its infancy, federal changes and growing adoption by those who run defined contribution plans may benefit the staid annuity industry as the long-term contracts—and the guaranteed income they offer—become more widely available to Americans. Where the two products had traditionally been seen as separate, the move could make them options within one overall plan.

“As these products evolve, I think there’s an opportunity to meld them both,” said Martin Powell, head of annuity distribution, CUNA Mutual Group. “Most annuities are sold through financial advisers who are rolling over 401(k) plans, or getting peoples’ buyouts. Now here’s an opportunity before they get to the stage of rolling over, they are going to have an opportunity to make buy-in decisions on ensuring longevity of their retirement plans.”

[This AM Best column is abridged. You can find the complete article [here](#).]

Projections of the potential size of the pool of money are premature as the total number of players in the burgeoning space and level of adoption aren’t clear by any means. As of June 30, 2021, Americans held an estimated \$7.3 trillion in assets in 401(k) accounts alone, which accounted for almost a fifth of the \$37.2 trillion US retirement market, according to the Investment Company Institute, which has been tracking defined contribution plan participant activity since 2008. The 401(k) figure is more than double the \$3.1 trillion cited for 2011.

For annuities providers, selling to mass-affluent retirement plan participants could be akin to life insurers boosting their sales to record levels in the past year largely on the backs of smaller policies sold online. Both allow the industry to grow by getting down into the so-called middle market and customers they traditionally weren’t able to tap.

Bruno Caron, associate director with AM Best, said the need for lifetime income products and solutions is high and has the potential to become a significant component of retirement planning. No other product has the ability to redistribute principal optimally and generate income for the unknown period of time of retirement. People often consider the size of their accounts and their personal wealth absent of a true reckoning of how much that wealth translates into income for the rest of their life because it is a major unknown.

“The income side of the coin is as important as the asset part when it comes to retirement planning; lifetime income is the suite of products that help retirees achieve an appropriate equilibrium given the many unknowns they face,” he said. “Given the current economic and demographic environment, a large-scale unique opportunity is up for grabs for the life and annuity space, and many carriers have teamed up as an industry to tackle this opportunity.”

In October, financial giant BlackRock announced that five large plan sponsors, which represent \$7.5 billion in target date investments, had elected to work with the firm to bring its LifePath Paycheck product as the default investment option in their employee retirement plans. The annuities are issued through Brighthouse Financial and Equitable, the company said. In announcing the deal, BlackRock said it expects initial plan adoption in 2022 and it will provide the option for guaranteed lifetime income to 120,000 U.S.-based 401(k) plan participants.

Fidelity Investments, which has nearly 8 million people on its workplace savings platform nearing retirement age, said in November that its Guaranteed Income Direct retirement income product will allow individuals to convert a portion of 401(k) or 403(b) savings into an annuity with the aim of providing predictable income. The program is expected to launch to select clients in the first half of this year, with broad availability late in 2022, Fidelity said.

© 2022 AM Best, Inc. Reprinted by permission.