Retirement Income
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Putnam’s Man with a Plan

By Editor Test *Wed, Mar 23, 2011*

Putnam Investments CEO Robert Reynolds called for a new lifetime income regulatory body and announced a decumulation tool for Putnam funds in a speech at the RIIA meeting this week.

Since moving from Fidelity in 2008 to run Putnam Investments—the two firms are only a short stroll apart along Water St. in Boston—Robert Reynolds has been vocal and visible in raising Putnam’s profile in the retirement income space.

On Tuesday, the frequently flying Reynolds stumped for Putnam in Chicago, where he spoke at length from a prepared text at the Retirement Income Industry Association’s annual conference, held at Morningstar-Ibbotson headquarters.

Reynolds had plenty to say. His speech coincided with his firm’s announcement of a “suite of income-oriented funds that aim to help advisors work with retirees in developing strategies for monthly income flows, at varying levels of risk tolerance, to flexibly address their changing lifestyle financial needs throughout retirement.”

He said a prospectus for the funds was filed with the SEC earlier this week and the funds, along with a planning tool for participants and advisors, will be available in the middle of this year.

He also slightly surprised the RIIA audience—about 150 executives and professionals from many silos of the retirement industry—by calling for a new regulatory body called the “Lifetime Income Security Agency,” or LISA. As an acronym, “it beats PBGC,” Reynolds said.

LISA, he said, would vet retirement income products, establish a “risk-based national insurance pool” to be funded like the Federal Deposit Insurance Corporation and discourage products that make “unsustainable promises that lower the public’s trust.”

Reynolds also railed at deficit hawks in Washington who regard the tax incentives for savers as “tax expenditures” that are costing the Treasury money. He warned of an imminent attack on the deductions for contributions to IRAs and 401(k) plans. “The torpedo is already in the water,” he said.

Putnam’s retirement income solution appears to revolve around a systematic withdrawal calculation tool that advisors can use when helping their clients draw a non-insured, non-guaranteed income stream from a portfolio of Putnam’s RetirementReady target date funds with its existing Absolute Return funds. (The latter aren’t to be confused with true absolute return funds that use long-short positions, derivatives and leverage to achieve their returns.)

Reynolds said the new offerings were filed with the Securities and Exchange Commission on March 22. The suite consists of three Putnam Retirement Income Funds, called Lifestyle 1, Lifestyle 2, and Lifestyle 3.

According to Putnam’s press release:

- Lifestyle 1, the suite’s retirement income conservative option, will be the new name of Putnam RetirementReady Maturity Fund, which includes a combination of Putnam Absolute Return 100, 300 and 500 Funds, Putnam Asset Allocation: Conservative Portfolio and Putnam Money Market Fund.
- Putnam Retirement Income Fund Lifestyle 2, a moderate retirement income portfolio, will be a new fund and strategy based on a combination of Putnam Absolute Return 100, 300, 500 and 700 Funds, domestic and international equity securities, convertible securities and fixed income securities.
- Putnam Retirement Income Fund Lifestyle 3, the most aggressive option in the suite, will be the new name of Putnam Income Strategies Fund, which will be modified to include a combination of Putnam Absolute Return 700 Fund, domestic and international equity securities, convertibles and fixed income securities.

“The suite, which is designed for investors who are already in retirement, who plan to retire in the near future or who expect to begin withdrawing their invested funds soon,” Putnam’s release said.

Jeff Carney, Putnam’s head of global products and marketing, told RIJ yesterday, “By integrating the Absolute Return funds with the relative return funds, you’re providing risk reduction. When you’re drawing down your assets, it’s volatility that kills you. This strategy gives you a better shot at a more controlled sequence of returns. Let’s say the targets of the Absolute Return funds are one, three and five percent. You could blend two of the funds to try and get 2.5%.”

Carney went on, “If [a pre-retiree] says, ‘I need a return of three percent of $100,000, the tool would tell you how much you have to save to generate enough income at that rate, and what your expected risk will be. It tells them the trade-offs. A great application for this is stay-in-the-plan assets. If I’m in our RetirementReady Maturity Fund”—the last and most conservative of Putnam’s target date fund series—“I can now change it to a mix of [target-date, absolute return and relative return] funds. The numbers of dollars in the Maturity Fund are quite small today, but over the next ten years, they’ll be huge. [Rollover] IRAs are another huge marketplace.”

Putnam’s program is not a decumulation plan or a form of non-guaranteed annuitization, Carney made clear, if one defines decumulation or annuitization as a mixed drawdown of both principal and returns over the course of retirement. It’s for individuals and advisors who want to preserve principal while getting a fairly stable income from a specific portfolio of both equities, fixed income investments and cash.

Income annuities and guaranteed lifetime income benefits are not a part of Putnam’s solution, which is aimed at the large group of investors and advisors who still shy away from insured products. “We’ve done a lot of work on annuities. We’ve made the fees on our product to be extremely competitive with them. The challenge on the annuity side is the complexity, the fees, and the mandates,” Carney told RIJ.

Industry observers have been somewhat skeptical of Putnam’s Absolute Return Funds, saying that their stated return goals are promissory and that they don’t truly meet the traditional definition of absolute return funds, sophisticated vehicles that combine long-short strategies, derivatives and leverage. Carney dismissed the skepticism.

"We can short up to 30% of the [Absolute Return] funds, though we're not short much right now. " he said. "We've been using these types of funds on the institutional side for years, and we decided that what was good for the institutional market is good for the individual market. People say that the names of the funds are a misnomoer or promissory, but that's missing the point. When equities zag, these funds zig. They don't behave like relative return funds. They stress the target return rather than the relative return over a rolling three-year period. We've got 10,000 advisors using these things and over $3 billion in assets. There's a reason why they work."

A Putnam release added, "The products can be used as a stand-alone solution or to work in tandem with other retirement income vehicles, and will offer funds with differing levels of return potential and risk."

"The funds will be accompanied by a new, prescriptive planning tool to help guide advisors and clients in creating a range of personalized income strategies drawing from their retirement savings. These Putnam Funds, combined with the planning tool, allow risk levels and withdrawal rates to be customized and regularly updated to meet individuals' needs and evolving circumstances."

"Subject to regulatory review, the funds are expected to be available in their entirety by midyear. The tool will be available at or near the funds' launch."