

## Retirement Parachutes, in Different Colors

By Kerry Pechter      Thu, Oct 7, 2021

*'Constance' from RetireOne and Midland National lets advisers hang an income-for-life rider on a non-annuity portfolio. Five 401(k) plan sponsors are adopting 'LifePath Paycheck' from BlackRock, Brighthouse and Equitable. It helps participants roll part of their plan savings to a fixed income annuity.*



The 401(k) annuity and the “contingent deferred annuity,” or CDA—two concepts related to the provision of retirement income, but with different audiences in different distribution channels—were in the news this past week. One bundles and the other unbundles.

BlackRock announced that five 401(k) plan sponsors have signed on to offer its “LifePath Paycheck” program. The program, unveiled in May 2020, helps participants buy single premium immediate annuities (SPIAs) from Equitable and Brighthouse Financial with a portion of their plan balance at retirement.

RetireOne, the distribution platform for fee-based advisers, announced that it would offer advisers a CDA (aka Stand-Alone Living Benefit, or SALB), underwritten by Midland National Life. Advisers can wrap a CDA around a client’s mutual fund or ETF portfolio and give them the same type of income safety-net (a “guaranteed lifetime withdrawal benefit”) that variable and fixed indexed annuities offer—but without buying an annuity.

The two concepts first surfaced in the retirement income world over a decade ago. But the problems they solve and the demand for their benefits—from asset managers, plan sponsors, advisers and pre-retirees—have arguably only grown.

They solve the savings-to-income transition in two different ways. The SPIA offers irrevocable fixed income for life. The CDA promises that if the client’s account goes to zero before he or she dies, the insurer will pick up the remaining payments.

<https://retireone.com/wp-content/uploads/2021/09/33428Y-PRT-8-21-MNL-Constance-CDA-ConB-MF.pdf>

**A CDA named ‘Constance’**

RetireOne and Midland National Life have collaborated to produce “Constance,” a zero-commission CDA or SALB. In effect, Constance unbundles an annuity’s income rider from the annuity’s investments. Advisers can bundle that rider with a portfolio they choose.

“Constance allows Registered Investment Advisors (RIA) flexibility to wrap client brokerage accounts, Individual Retirement Accounts (IRA), or Roth IRAs with this lifetime income protection,” a release from RetireOne and Midland National Life said this week.

Advisers don’t have complete freedom to build the portfolio they wish to wrap. Midland National’s vice president of product development and risk management, Kirk Evans, told *RIJ* in an email that Constance would entail the use of “asset allocation tiers.” These prevent advisers from taking too much risk with their CDA-protected portfolios.

Constance “is priced consistent with how VA GLWBs are priced. We take into account the guardrails in the permitted asset allocation tiers in assessing the risk for the various asset allocation tiers and setting the CDA fee,” he said.

As a Constance **brochure** shows, the annual fee for the rider is fixed at between 1.10% and 2.30% of the initial account value of the portfolio, depending on the level of income protection they want (Core, CorePlus, or CorePlusX) and the amount of equities in their portfolio. (A Tier A portfolio can have up to 45% equities, Tier B 60%, and Tier C 75%.) If the adviser wants to draw an annual advisory fee from the account, the expense ratio is slightly higher to offset the fact that fewer assets will be backing the guarantee.

“Each year we revisit the CDA fees for new issues based on the current market conditions and update the fees accordingly, if there is a meaningful impact,” Evans added. “They may change their investment mix within their chosen asset allocation tier without an impact to the CDA fee. If they move their asset allocation from one asset allocation tier into another, their CDA fee will be updated to reflect the current asset allocation tier for their chosen coverage plan and advisory fee election.”

Selected ETFs and mutual funds from BlackRock, Dimensional Fund Advisors, Franklin Templeton, Vanguard, and other leading managers are available within Constance as investments that the CDA can be wrapped around. RetireOne expects to vet and approve more investments for inclusion in the program.

RetireOne’s technology provides the infrastructure behind the development of Constance by consolidating data from insurance companies and custodians for servicing and administration. Advisers can keep covered assets with the custodian in either qualified or

non-qualified accounts.

“Unlike funding a traditional annuity by selling out of existing positions, advisors may simply cover client’s existing mutual fund or ETF investments with Constance without enduring the impact of a capital gain tax event,” a RetireOne release said.

### **‘LifePath Paycheck’**

BlackRock, which manages \$9.5 trillion in assets, announced this week that has signed five 401(k) plan sponsors as the first adopters of its LifePath Paycheck program, whose concept was announced in May 2020 and reported in *RIJ* at that time.

“Five large plan sponsors representing over \$7.5 billion in target date investments, including Tennessee Valley Authority Retirement System (TVARS), have elected to implement the LifePath Paycheck solution as the default investment option in their employees’ retirement plans, subject to plan-specific timing and other implementation considerations,” a BlackRock release said.

Another of the five plan sponsors was Advance Auto Parts, Inc., the *Wall Street Journal* reported yesterday. The identities of the other three plan sponsors have not yet been made public, according to BlackRock.

With initial plan adoptions expected in 2022, this action will provide the option and opportunity for over 120,000 U.S.-based 401(k) plan participants to obtain a guaranteed income stream in retirement.

Here’s how LifePath Paycheck works:

A participant in an employer-sponsored retirement plan invests in (or is defaulted into) an age-appropriate LifePath Paycheck TDF, which uses the standard TDF allocation strategy of starting with a high equity allocation and gradually shifting toward 60% fixed income by the time the participant reaches age 65.

At age 55, part of the participant’s bond allocation begins moving into a group annuity contract that provides participants with the option to purchase a lifetime income stream in retirement—payable by insurers selected by BlackRock (currently, Equitable and Brighthouse).

The gradual transfer process, which takes five to 10 years depending on when the employee retires, mitigates interest rate risk. Eventually it amounts to about 30% of the employee's TDF assets.

When participants retire (at age 59½ or later), BlackRock makes it easy for them to use the group annuity assets to buy an individual income annuity (single or joint, 10-year period certain or cash refund) with assets they roll out of the plan to an IRA. (BlackRock allocates money to both annuity providers. It plans to expand the number of insurers over time.)

Participants' remaining retirement plan savings that are not used to purchase the annuities can be invested in a target date product that is designed to complement the lifetime income stream paid by the insurers.

This product is a diversified portfolio that has an asset allocation of about 50% equities and 50% fixed income, and provides daily liquidity so that participants can make withdrawals whenever they'd like, subject to their retirement plan's rules.

Participants can also elect to have their remaining retirement plan savings that are not used to purchase the annuities directed to another investment option in their retirement plan or redeem for cash.

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