RIAs, 401(k)s, and Annuities: Is This the Future?

By Kerry Pechter *Thu, Feb 17, 2022*

Managed accounts are one way to build annuities into 401(k) plans. Morningstar is bundling Hueler Income Solutions into its managed accounts, giving participants an easy path to an income annuity purchase.

Looking to add a pension dimension to 401(k) plans, Morningstar will bundle the Hueler Income Solutions annuity purchasing platform into its managed account services for defined contribution (DC) plans: Retirement Manager and, for advisers, Advisor Managed Accounts.

The deal is between the Workplace Solutions unit of Morningstar Investment Management and Hueler, which sells individual income annuities online, mainly to participants when they leave plans. Run by Kelli Hueler, Hueler is a boutique operation, but it works with clients as big as Vanguard, General Motors and Boeing.

Participants who use either of Morningstar's managed account services will get messaging about retirement income as they near their separation dates. About a year before they retire, the service may encourage them to buy a single premium immediate annuity (SPIA) with part of their savings.

Participants who like the idea will navigate to Hueler's platform. Hueler will gather annuity quotes from participating life insurers, based on the participant's premium size. Once Hueler's insurance-licensed phone reps make sure the annuity shoe, in effect, fits the retiree, Morningstar puts the purchase process in motion.

"Using the data provided by individual participants, we make a recommendation on the percentage of savings they should allocate to an annuity," said James Smith, who runs Morningstar's managed account services. "That's where we step in and provide concierge level service," Kelli Hueler, CEO of Income Solutions, told *RIJ*. "We make sure they get a contract that has the benefits they need."

The Hueler platform gives Morningstar's managed account services the pathway to an annuity purchase that it lacked in the past. Morningstar provides an accredited tool for estimating the optimal amount of money a participant should spend on an income annuity, which Hueler lacked.

DB-in-DC

Managed accounts and target date funds (TDFs) are the two Qualified Default Investment Alternatives that plan sponsors can auto-enroll their plan participants into. With TDFs, an algorithm re-allocates the participants' assets as they age. A managed account works like a robo-adviser, soliciting essential data from participants and making financial recommendations.

Kelli Hueler

Each of these two services provides a vehicle for offering an annuity to a plan participant. An optional lifetime income wrapper could be added to a TDF, at an extra fee. This would be an "in-plan" annuity. A managed account provider can steer participants toward the purchase of an annuity when they retire. This would be an "out-of-plan" annuity. It's the Morningstar-Hueler approach.

In 2019, the federal SECURE Act relieved plan sponsors of part of the legal burden of offering annuities. That unleashed a tide of innovation in this area. A number of life insurers want an opportunity to market individual annuities to 401(k) participants. Asset managers that currently sell mutual funds through 401(k) plans think that plan participants who buy annuities might keep the rest of their money in the plans indefinitely.

There are some potentially misaligned interests here. An annuity purchase would, inevitably, drain some of a retired participant's money from the mutual funds in the plan and send it to a life insurer's general account. But some asset managers will accept that sacrifice as the price of holding on to the balance of the participants' savings. As it is, asset managers helplessly watch millions of participants "roll over" trillions of dollars of savings out of their funds and into IRAs at brokerage firms at retirement.

Americans held $10.4 trillion in all employer-based DC retirement plans on September 30, 2021, of which $7.3 trillion was held in 401(k) plans, according to the Investment Company Institute. According to the most recent figures from the Employee Benefit Research Institute, target date fund assets represent about 27% of 401(k) plan assets.

Competition

The managed account business is highly concentrated. Morningstar's main competitors in the space are Edelman Financial Engines and Fidelity. Edelman Financial Engines' "Income+" service aims at managing a plan retiree's money to last into their "early 90s," according to a corporate disclosure. Participants have the option of buying an annuity to provide lifelong income starting at age 85, but no annuity purchase is woven into the program.

Last November, Fidelity announced its new Guaranteed Income Direct program, which is scheduled to become available to participants in Fidelity-administered plans this year. As Fidelity describes it, the program will give workers "a straightforward option of an immediate income annuity, with institutional pricing and offered by the insurer of their choice." That sounds close to the Morningstar-Hueler model.

Together, Edelman Financial Engines, Fidelity and Morningstar control about 90% of the $500 billion managed account industry. At mid-2021, Edelman had $234 billion in managed account assets, followed by Morningstar Retirement Advice with $105.1 billion and Fidelity with $87.5 billion, according to Cerulli Associates. Smith put the latest figure at about $110 billion, with Retirement Manager offered at 60,000 plans and Morningstar managed account services used at another 50,000 Empower plans.

In-plan or out-of-plan?

The Morningstar-Hueler arrangement provides for an "out-of-plan" annuity purchase, which plan sponsors generally prefer to "in-plan" annuities. Out of plan purchases mean that the money comes out of the plan before it goes to a life insurer. Since the participant chooses the life insurer and the annuity, the plan sponsor's legal liability is negligible. If the annuity is in-plan, the plan sponsor chooses the life insurer, and bears at least some responsibility for that choice if the life insurer fails.

James Smith

“The majority of plan fiduciaries are more comfortable with letting the individual participant make an election and own it,” Hueler told *RIJ.* “But if the sponsor wanted to make our annuity a plan option, we could make it a plan option.” But few sponsors are likely to do that.

“We’ve offered annuity products for insurance company recordkeepers for years,” Morningstar’s Smith said. “But we haven’t seen wide traction in that area. Very few plan sponsors who are not life insurance companies embrace in-plan annuities. Our managed accounts service allows the plan sponsor to say, ‘I don’t want an in-plan option, but I care about delivering an income option to my employees, and here’s an institutionally priced annuity.”

‘Income Solutions’

Morningstar is well known for its mutual fund research and sprawling array of investment services, but Hueler Income Solution has a low profile. It started in the early 2000s when Hueler, who owned a stable value fund data service for institutional investors, created a web platform where 401(k) plan participants could request a single premium immediate or deferred income annuity and then choose from among several competitive bids from life/annuity insurance companies. Kelli Hueler wanted to empower consumers in a realm where they’d been at a distinct informational disadvantage.

Hueler spent years successfully pitching the service to large plan providers and plan sponsors, some of whom had been clients of her stable value fund business. At one point, Vanguard offered all of the participants in all of its 401(k) plans privileged access to the Income Solutions service. Vanguard got out of the annuity business in 2019, but is still making the service available to its plan participants, according to a Vanguard spokesperson.

Morningstar bought Hueler's stable value fund business, Hueler Analytics, in early 2020. Then, last year, Smith told *RIJ*, Morningstar launched Advisor Managed Accounts, a variation of its Retirement Manager service. The new service would be used by advisers who sell and set up retirement plans for companies and, in many cases, design their investment line-ups.

Hueler has adapted its business model for this new role. The Income Solutions platform traditionally served as an online insurance agent, and earned a percentage of each annuity premium. In its arrangement with Morningstar, Hueler will earn an asset-based fee. The arrangement applies mainly to future business, and not Morningstar's or Hueler's existing relationships with plan sponsors and advisers.

Traditionally, plan participants have paid as much as an extra 65 basis points (0.65%) a year for a managed account service as a kind of built-in robo-adviser for their savings. But litigation, regulation and competition have compressed managed account fees as low as 40 basis points (0.40%). In Morningstar's Advisor Managed Accounts program, the fee will be divided primarily between Morningstar and the plan adviser, with a sliver for Hueler in future plans.

Counting on RIAs

In 2020, CAPTRUST Financial Advisors, one of the largest registered investment advisers (RIAs) in the US with a reported $450 billion under management, became one of the first RIAs to adopt Advisor Managed Accounts. CAPTRUST partnered with Milliman, a retirement plan administrator as well as a global actuarial consulting firm, to introduce the service to their joint clients under the white-label brand, "Blueprint Managed Advice."

Smith expects the RIA channel to be the biggest source of growth for Morningstar's overall managed account business. RIA aggregators—companies that intend to survive the ongoing consolidation of RIA firms—"like Advisor Managed Accounts," he told *RIJ*.

That's a bit counter-intuitive; RIAs specialize in wealthy clients and historically they rarely recommended income annuities. Platforms like DPL Financial Partners and RetireOne have been able to serve annuities to fee-based RIAs, but only about 4% of annuities are sold without commissions to the adviser market, according to LIMRA Secure Retirement Institute.

RIAs also sell and advise retirement plans, and Smith thinks they'll like a managed account solution that includes the Hueler option. The managed account gives RIAs an avenue for broadening their relationships with vast numbers of participants, especially at the point of retirement, when people face big financial decisions. "It's an easy segue for RIAs to say, 'Let's take care of the whole family,'" Smith said. "It's a scalable way for an RIA to deliver retirement advice to a mass market."

A big question remains: Are Americans hungry for SPIAs? Judging by retail sales history, their appetite is modest. Of the $130 billion in annuity sales in the first half of 2021, only about $6 billion involved payout annuities (SPIAs and deferred income annuities, or DIAs). But that's not discouraging certain fund companies, life insurers, and plan advisers from pitching them to participants before they retire—and before they roll over their DC savings into brokerage IRAs.