The ‘Retirement Income Consortium’ is Born

By Kerry Pechter *Thu, May 5, 2022*

Eight financial giants formed the Retirement Income Consortium to promote income solutions in 401(k) plans and 'develop a vetted due diligence framework' for 'selection and monitoring' of those solutions.

A group of life insurers and asset managers has created a new industry group: the Retirement Income Consortium (RIC). The founding members are AllianceBernstein, Allianz, BlackRock, Income America, Nationwide, Principal Financial Group, Prudential Financial and TIAA-Nuveen.

RIC’s overall goal is to “accelerate adoption of guaranteed income solutions in retirement plans,” according to a release this week. More specifically, it plans to “develop a vetted due diligence framework for retirement income solution selection and monitoring.”

Broadridge, a fintech firm would provide some of the infrastructure for 401(k) income options, provided a platform for RIC-related information on its **website**. Cannex, fi360 (a Broadridge company), Endeavor Retirement LLC (Lake Oswego, OR), and Michelle Richter, founder of Fiduciary Insurance Services LLC, are facilitators of the consortium. Richter is also executive director of **IRIC**, the Institutional Retirement Income Council.

The American Retirement Association, which encompasses the National Association of Plan Advisors (NAPA) and the Plan Sponsor Council of America (PSCA), has also joined the Consortium. It has “an independent initiative to create a curriculum for a new retirement income certification program,” the release said.

Those who want to hear about RICs plans can join a 30-minute webinar on May 19, 2022 at 1 pm Eastern, titled “Introducing the Retirement Income Consortium.” Registration is free and open to the public. Register for the webinar **here**.

Nouns and verbs

A clear process by which defined contribution plan participants can convert all or part of their tax-deferred savings into a guaranteed revenue stream at retirement has long been a feature in non-profit 403(b) plans; TIAA pioneered it. But Department of Labor-regulated

401(k) plans, sponsored by for-profit companies, rarely offer them to active participants prior to retirement.

That's partly because a clear legal and business process by which employers can evaluate, select, design and monitor so-called "in-plan" annuities for their participants hasn't existed. While the SECURE Act of 2019 helped clarify the applicable labor law around annuities in 401(k) plans, it didn't create a specific guide to conducting due diligence on income tools and providers.

RIC's goal is to formalize such a process. It will educate plan sponsors about income tools while remaining agnostic to the various types of tools and annuity products that its member-companies want to distribute to participants through retirement plans.

Richter told *RIJ* that there's an implicit barrier to retrofitting 401(k)s for income. On the one hand, plan sponsors are used to hiring financial professionals to give them *advice* on creating an *investment* menu for participants.

But there is no training for financial professionals who can give plan sponsors advice on annuities, she said. And while the Alliance for Lifetime Income promotes income solutions to individuals, no one is advocating income solutions to plan sponsors.

"There's been no centralized advocacy group for the income solution providers," she said. "They've been on their own in wholesaling to the plan sponsor community. The Retirement Income Consortium will level the playing field for those of us who believe that we can deliver insurance in a way that supports fiduciaries. ERISA says you must have a prudent, well-documented process or you could be sued."

One of the barriers to annuities in 401(k) plans involves cost. Plan sponsors are sensitive about adding new fees to their plans; they've fought many lawsuits over the level of fees that their retirement plan providers charge participants. A new insurance product such as an annuity would add a potentially expensive new option to 401(k) plans.

Michelle Richter

Plan sponsors need a framework for reconciling the expense of an annuity with the best interests of plan participants, said Richter. Her firm, Fiduciary Insurance Services LLC, is a provider of services that would be available within such a framework.

Today, “Insurance products are still perceived as expensive assets and not as efficient providers of liability management,” Richter said. We live in a regulatory regime where investment advisory services are “verbs” and insurance products are “nouns,” she explained. “There is a framework of verb sales to the left [asset] side of an individual’s persona balance sheet, but no framework of verb sales to the right [liability] side of the balance sheet.”

This type of framework is a necessary but not sufficient condition for the distribution of annuities through 401(k) plans. Even if a framework for comparing income products is standardized, plan sponsors would find no standardized income solution.

They will still face a bewildering landscape of variable, fixed, indexed, deferred, and immediate annuities—and possibly even tontines. These products are difficult to compare. They entail certain trade-offs that can’t easily be resolved by giving plan sponsors more information.

By most accounts, plan sponsors won’t import annuities into their plans unless the products are “liquid.” That implies a variable or fixed indexed annuity with a “guaranteed lifetime withdrawal benefit” rider.

But those products are typically fee-heavy, complex, or both. At the same time, annuity issuers are striving to have their products bundled into QDIAs (Qualified Default Investment Alternatives) so that participants can be defaulted into them. Managed accounts and target-date funds are the prevalent QDIAs.

Without more demand from participants for income solutions, plan sponsors might hesitate to climb a daunting new learning curve. Demand for in-plan communities comes mainly from companies like the RIC members, who are looking for ways to capture 401(k) assets that will otherwise be rolled over to brokerage IRAs and lost to them.

Most plan advisers are investment advisers, and they share a conviction that risk can be efficiently managed on the investment side alone, either through diversification of risky assets or by allocating more or less of a client’s portfolio to cash equivalents or TIPS.

The idea that an investor or plan participant should *pay* an insurance company to haul away their risk, like asking 1-800-Got-Junk to empty their basement, is foreign to them. RIC will try to teach plan advisors and sponsors that removing longevity risk and market risk by purchasing an annuity or a guaranteed lifetime withdrawal rider should be a participant’s first step toward putting his or her retirement house in order.

Jack Towarnicky, former executive director of the PSCA, remains skeptical of the demand or the need for in-plan income solutions.

“In my past plan sponsor roles, I did not encounter any financial organization that provided an in-plan guaranteed income solution which would appeal to more than a minimal number of my plan participants—if only because of tenure trends, where only a small minority of my plan participants actually retired upon leaving my firm,” Towarnicky told *RIJ* in an email.

“Perhaps the consortium can focus on demonstrating why/how an in plan guaranteed income option would be superior to a choice of individual marketplace products so as to overcome the cost to implement/administer and the fiduciary risk in selection and monitoring.”

In the coming months, the Consortium will present a free educational webinar series covering the essentials of in-plan retirement income, starting with “Retirement Income: Why Now?” Registration is free and continuing education credits are available. Registration and replays will be available through the Consortium **website**.