Retirement Income
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‘Sticking to the Plan’ While Taking Income

By Kerry Pechter *Mon, Feb 5, 2024*

Pension Plus is a recent entry in the race to sell decumulation tools to 401(k) plan sponsors. Shlomo Benartzi, the behavioral finance expert, conceived it. Retirement industry veteran Mike Henkel will run it. American Funds and OneAmerica are early adopters.

Shlomo Benartzi, the renowned behavioral finance expert whose ideas have nudged millions of people into deferring more money into their defined contribution (DC) accounts, has started a fintech firm to help the same people spend their savings after retirement without ever leaving their plans.

Shlomo Benartzi

The startup is called Pension Plus. Benartzi has secured venture capital and hired Mike Henkel, a retirement industry veteran, to run Pension Plus, Benartzi told *RIJ*. So far, American Funds and OneAmerica have agreed to offer the service to their institutional clients.

Pension Plus is not a managed account, a single premium immediate annuity, or a deferred annuity sleeve inside a target date fund. It’s a $9-a-month “guidance service” that participants can adopt at age 50. "To do this right, you have to create relationships before retirement," Henkel said. When participants retire, the service will distill their plan assets and other liquid assets into a single monthly "paycheck."

"We put it all in terms of paychecks," he told *RIJ*. "When you retire, we'll replicate a paycheck for you using Social Security and your savings. We start getting that money transferred to your checking account. We'll adjust the paycheck to keep up with inflation, and help you stay on track for the rest of your life.

"To size the paycheck correctly, you have to model longevity," Henkel added. "So we ask if they're in good health and if they've been smokers. We've found that self-assessment works almost as well as a 15-page insurance form. We don't have a default death date, and we never ask people when they think they will die."

An acute imperative

Pension Plus is a recent entry in the race to sell decumulation tools to 401(k) plan sponsors. Enabled by the SECURE Acts of 2019 and 2022 and driven by the imperative—felt most acutely among "Defined Contribution Investment-Only" (DCIO) providers and some DC recordkeepers—to stanch the rollover of money from 401(k) plans to brokerage IRAs. DCIOs are asset managers that distribute proprietary mutual funds through the plans but provide no other plan services.

"Recordkeepers lose roughly 80% of client assets at retirement," Henkel said. "[DCIO] Asset managers have the same problem. Money moves on. If we can help our partners lose only 50%, that's better than losing 80%." But plan sponsors aren't necessarily on board with the idea. Only 40% to 50% of them say they want to maintain qualified accounts for separated employees, Henkel added.

Since 2005, the amount of savings in IRA accounts (primarily IRAs funded by rollovers from qualified retirement plans) has been growing faster than the amount in DC plans. In 2005, DC plans held $3.7 trillion in assets, while IRAs held $3.4 trillion. In 2023, DC plans held $9.9 trillion and IRAs held $12.6 trillion.

Mike Henkel

Henkel has been president of Ibbotson, managing director of Envestnet and CEO of Achaean Solutions. Benartzi wrote *Save More Tomorrow* (Penguin Group, 2012) and taught at UCLA. With Nobel Prize-winning economist, Richard Thaler, who co-wrote *Nudge* with Cass Sunstein, Benartzi provided a scientific rationale for auto-enrollment in 401k plans and auto-escalation of 401k contributions.

Benartzi left UCLA in 2019 and sought out venture capital for Pension Plus. American Funds became a partner, as asset manager, and OneAmerica, a diversified financial services firm. Both firms intend to cover the costs Pension Plus for participants prior to retirement. All envision a service that can be tailored to each retiree, addressing the uniqueness of each retirement path.

"We're trying to make it an [ongoing] service. With most tools, you run the program once. With Pension Plus, if something changes dramatically, we'll rerun the plan. Once you start, we'll run the financial model quarterly. There will be a series of communications. For instance, we'll remind you when to claim Medicare and when to take RMDs. We'll help you stay on track for the rest of your life," Henkel said.

Within retirement, Pension Plus will favor the strategy (a "bridge" to Social Security) of not claiming Social Security benefits until age 70, when payouts are highest, and using one's own qualified savings to cover living expenses until then, if necessary. Pension Plus' target market will be mass-affluent participants with investments worth $250,000 to $1 million at retirement.

Not all recordkeepers are hurt by rollover losses. Fidelity, Vanguard and Schwab, for instance, are full service plan providers, with capabilities as recordkeepers, broker-dealers, and IRA custodians. Schwab is also a bank, so their clients never need to leave. Aside from those firms, "nobody else has figured out how to keep the assets under control," he told *RIJ*.