
Strategic Insight is Bullish on 'In-Plan' Annuities

By Editor Test Thu, Aug 16, 2012

"This market is more mature than many people realize," said Tamiko Toland, principal author of a new Strategic Insight review of the efforts to sell individual lifetime income guarantees to current participants of defined contribution plans.

The widening use of target-date funds as qualified default investments and the advent of technical solutions to portability issues should make defined contribution plan sponsors more receptive to offering so-called "in plan" annuities, according to *In-Plan Guarantees*, a new report that Strategic Insight is currently marketing.

"Many of the challenges have been addressed," said Tamiko Toland, managing director of Retirement Income Consulting at Strategic Insight and primary author of the report. "This market is still in its early stages, but it is more mature than many people realize."

Marketers of in-plan guarantees that are covered in the report include Alliance Bernstein, ING, AXA Equitable, John Hancock, BlackRock, Diversified/Transamerica, The Hartford, Genworth, Lincoln, MetLife, Great-West, Prudential and Mutual of Omaha.

Insurance companies are eager to market their lifetime income guarantees, especially living benefit riders, to defined contribution plan participants. Prudential has succeeded in that arena with its IncomeFlex program, and United Technologies seemed to set a precedent not long ago when it began offering Alliance Bernstein's annuity program, which uses guarantees from three insurers.

Annuities are also a way to retain participant assets. Asset managers who sell institutional target-date funds can keep participants invested in their funds even after they retire if they sell them an insurance wrapper before they leave the plan. Otherwise, participants who retire often roll their money over to an IRA and buy new funds from a rival asset manager.

But many plan sponsors are still wary about in-plan annuities. Despite a nascent sense that they may have a fiduciary duty to provide exit strategies to retiring participants, they have been reluctant to offer them. Some fear liability for a future insurance company failure. Others worry that it will be hard to switch insurance providers once all the plumbing and wiring between the plan and the insurer has been installed.

According to a Strategic Insight release, *In-Plan Guarantees: Identifying Trends and Opportunities in an Evolving Marketplace* sheds light on this area. Some of the report's observations and areas of interest include:

- Products based on target date funds dominate the market - 70% of lifecycle in-plan products are target date
- Many 401(k) platforms view guaranteed income options as a competitive differentiator
- Regulatory clarity will come after more plan sponsors, especially "jumbo" sponsors, adopt guaranteed income solutions

The report provides descriptions of 14 different in-plan guarantees as well as key information on the marketplace. Sections detailing challenges, areas of progress and opportunities provide a comprehensive understanding of the environment for in-plan guarantees.

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