The Point Person for ‘Secure Retirement Strategies’

By Editor Test *Wed, Dec 1, 2010*

Mark N. Fortier, CFA, head of Product and Partner Strategy at AllianceBernstein, has led a team that spent much of the past three years building a multi-insurer platform to provide in-plan income solutions for large DC plan sponsors.

In his testimony before a panel of Department of Labor and Treasury officials last September, AllianceBernstein’s Mark N. Fortier described his company’s philosophy about helping plan participants convert life savings to lifetime income.

“We believe that combining a target-date portfolio with a withdrawal benefit can create an attractive QDIAone that provides secure lifetime income similar to what’s offered by a traditional DB plan, but with the control and upside potential of a DC plan.

“I’ll refer to this alternative design as a ‘secure income target-date portfolio.’ Here’s how it works:

“In secure income target-date portfolios, the guarantee is a component of the target-date portfolio’s asset allocation. Starting at around midlife, more and more of the portfolio’s assets are automatically covered by guarantees.

“And the guarantees can be backed by multiple insurers.

What this helps do is promote price competition…It also addresses the risk that any one insurer might default or run out of capacity to guarantee more assets. In our conversations with sponsors, they felt that having the guarantee backed by multiple insurers was more than nice… it was a necessity.”

That, in brief, describes the Secure Retirement Strategies program that AllianceBernstein announced this week. Fortier, who joined AllianceBernstein in 2007 after serving as senior vice president and chief technology officer at Diversified Investment Advisors, worked as a senior portfolio manager on defined contribution plan investments until switching to head of products for defined contribution. He spoke about SRS with *Retirement Income Journal* this week.

***RIJ*:** How does SRS work?

Fortier: Participants get defaulted into target date funds based on the plan rules, and they start to buy protection based on their age. It can vary from client to client, but we think the right age is about 48. The protection is gradually extended until it covers all of the money in the target date fund.

Think of it as tranches of lifetime withdrawal benefits. Here’s an analogy. If I buy into 2020 fund, for instance, my money could be split among multiple investment managers. Here, you slice up each contribution three ways, and each insurer insures a portion of money.

All that the participants need to see is how much money they have and how much income they accrued. It’s an incredibly simple concept. First the asset allocation and now the income is provided by experts. At the same time, you're weaning people off the focus on account values and onto income.

RIJ: How did the program come about?

Fortier: Our development effort has been three to four years in the making. One of the big concerns we heard from plan sponsors from the get-go was that the single-insurer solution was a showstopper. They said, we can't put all our eggs in one basket. Now what usually gets portrayed as 'single issuer is actually default risk. I don't think default risk is the big issue.

On a percentage basis, default risk has been insignificant. What they don't emphasize is *pricing risk and capacity risk*. That is, can we be sure we have a competitive offer? If an insurer were struggling, the first thing they would do would be to raise prices or limit capacity. How can we be sure that that won't happen? These are the things that are driving us to the multi-insurer solution."

Not only did the sponsor have heightened sensitivity to the risk of a single issuer, they were also sensitive to fee variability. All of the traditional living benefit riders had price changes built into them, but to the large plan DC market that was a negative. They prefer fee certainty.

So we re-engineered the basic GLWB, and rather than hold the withdrawal rate constant, we said, Let's let the fee stay the same, and each of the insurers will put forth an appropriate withdrawal rate for money contributed this quarter. Next quarter, if interest rates go from 5% to 10%, the insurer can increase the withdrawal rate. It's like dollar cost-averaging.

RIJ: In what sense do the insurers compete?

Fortier: You have three insurers vying for each allocation, and if one offers four percent, and another offers five and the third one offers six, the one offering six will get more money. The one who offers four may be signaling that it doesn't want any more money right now. If the insurers are afraid of market volatility and can't afford to offer a five percent payout, all three can lower their withdrawal rates for new money yet to come in.

But this is all done through technology under the surface.

RIJ: Sounds complicated.

Fortier: It sounds complicated but the components are all available today. A TDF does virtually the same thing with multiple investment managers. Regarding the infrastructure, however, AllianceBernstein said, 'We need to step up and we built the infrastructure.' That was a departure for us, since we're pure asset management. We built a benefit administration for this. The recordkeeper maintains control of the client-facing side, but we're the Intel inside. That makes portability easier because the plan sponsor can change recordkeepers and the new one won't have to start from scratch.

RIJ: And it all helps you retain assets.

Fortier: The strategy is ultimately transformative for the defined contribution space. What's been missing for most DC participants is that they have no reason to leave their money in their plan. So they roll it over. And as long as the world thinks of rollovers as the default at retirement, then for large institutional managers like ourselves the business model is keeping the money in the plan."