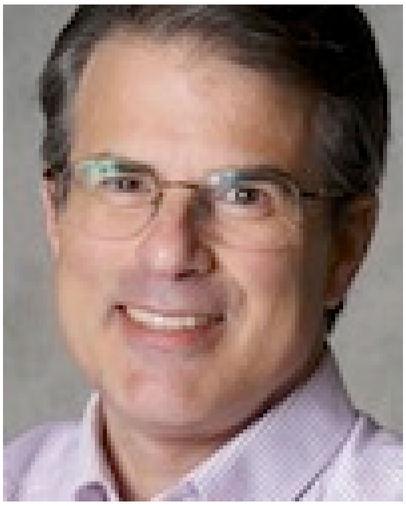
Where’s the Nuance in News about Annuities?

By Kerry Pechter *Thu, Jul 11, 2019*

In stories about annuities, even in the Wall Street Journal, writers seem to assume that annuities are a single product, and not five or six financial products with overlapping but distinct purposes.



BlackRock will be incorporating an annuity into its institutional target date funds (TDFs) for 401(k) plans, and the $6.5 trillion asset manager has been among the financial services companies that have lobbied for the passage of the SECURE (Setting Every Community Up for Retirement Enhancement) Act, according to a recent report in the *Wall Street Journal*.

“While BlackRock isn’t currently in the annuity business, the firm is now in talks with insurers to provide such instruments as a part of retirement offerings it wants to launch. The firm joins financial companies from State Street Corp. to TIAA that are competing to reshape 401(k)-type plans,” the *Journal* reporter wrote.

The SECURE Act is intended, in part, to encourage employers to include guaranteed lifetime income options in the 401(k) plans they sponsor by reducing their risk of getting sued if the annuity partner they choose ever fails to fulfill its promises to participants. The Act passed the House of Representatives by an almost unanimous vote in late May. But the Senate version of the legislation has faced sustained resistance from Sen. Ted Cruz (R-TX), as PlanAdviser.com **reported** this week.

BlackRock has tried to identify itself with retirement income before by promoting an index and calculator called CoRI, which helped investors figure out how much they’d have to hold in bonds to generate a desired income in retirement, based on their current age and current bond yields. But no insurance company partner was involved in that. Last December, as *RIJ* **reported**, BlackRock announced a retirement-related partnership with Microsoft.

Asset managers that distribute TDFs through 401(k) plans have to be concerned about the strong tendency among recent retirees to “roll over” their plan accounts to individual IRAs at brokerages and fund firms like Vanguard. If asset managers could incorporate annuities into the final stages of their TDFs, more money might stay in 401(k) plans.

BlackRock wouldn’t tell me what kind of annuity it might attach to its TDF. But the logical choice would be an institutionally-priced variable annuity with a guaranteed lifetime withdrawal benefit. That could give BlackRock a chance, if not an exclusive right, to manage the money in the variable annuity sub-accounts, which are similar to mutual funds. Prudential has tried to do this for years with its IncomeFlex TDF product for 401(k) plans, but plan sponsor anxiety about the legal and financial liability that might stem from designating the wrong annuity provider has slowed the development of that type of business.

“State Street Global Advisors plans to roll out in 2020 its first workplace retirement offering with a lifetime income feature for a multibillion-dollar U.S. client. When a participant in the target-date-like offering turns 65, he or she can choose to move a portion of funds out into a group-deferred annuity,” the *Journal* also reported.

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Speaking of the SECURE Act, here’s an instance of misinformation about annuities in the popular press. On July 9, Phil DeMuth wrote on the *Wall Street Journal*‘s opinion page, “The insurance industry loves the SECURE Act’s mandate that annuities be offered as a payout option in all retirement plans.” (If you don’t recognize the name, DeMuth has co-written a couple of financial books for consumers with celebrity economist and comic actor Ben Stein.)

Does the SECURE Act require all defined contribution plan sponsors to offer annuities? I don’t think so. To make sure you didn’t miss the point, a cartoon illustration above the article depicts a fox with a briefcase labeled, “Annuities,” guarding a chicken house full of nest eggs.

What’s most scary about this op-ed piece, aside from its distortions: It was the *Journal* readers’ most popular online “read” for the past three days. Dozens of commenters condemned annuities and warned of a government conspiracy to confiscate 401(k) savings. Confirmation bias is real.

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In a similar vein, whenever I read an article in the popular press that refers generally to “annuities,” I wince inside. The overall message of my 2008 book, *Annuities for Dummies*, was that the five or six financial products called “annuities” are more different than alike, often sharing only the owner’s option, rarely exercised, to convert the underlying value to an irrevocable lifetime income stream.

Today I received a note from the ever-vigilant National Association for Fixed Annuities, which mainly advocates for index annuities. The blast e-mail protested a July 2 *Forbes* article that chided the septuagenarian members of the Rolling Stones for letting the annuity advocacy group, **Alliance for Lifetime Income**, sponsor their 2019 tour.

The writer also used the occasion to smack down "traditional commercial annuities," whatever they are, for the usual reasons. He must have meant retail index annuities, because he referred to commissions as high as 8%. But the Alliance leans at least as much toward variable annuities. Where's the nuance?

I once worked for *Prevention*, a quaint, bygone, but once widely read magazine that championed vitamin and mineral supplements. Vitamins and annuities both seem to inspire cult followings—and disproportionate outrage. I'm still trying to understand why.