



The Winds of Change in Retirement Plan Design: Guaranteed Lifetime Income

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Key Takeaways

- Guaranteed Lifetime Income involves annuities – fixed or variable
- The need is urgent
- The impediments are not insurmountable
- Ultimately, the key is education



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We believe resolutely that there is a slowly, but inexorably, growing movement in the US towards reshaping the question of retirement readiness – at least in part – from wealth accumulation to guaranteed lifetime income (e.g., think old-fashioned pension benefit for life – but in a defined contribution plan). Because we are on the front line, we can see actual – albeit incremental – evidence of that.

ACG has been an active participant in that national discussion for more than ten years. 2008 derailed its momentum, but it’s regaining its traction. We can point to the regulatory reasons why, but that guarantees missing the forest for the trees. The same thing is true were we to try and summarize the various options or objections – which are many. Instead, we’ll share a couple “empirical” examples of the forward progress.

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"Could we offer one 'traditional' mutual fund platform and a second platform dedicated to the many different 'guaranteed lifetime income' options? Now, that's a forward-looking question!"

Last fall, we were asked to meet with a very large state university system on this subject. By statute, the university system is required to offer at least two different recordkeeper solutions. One question it had was, “could we offer one ‘traditional’ mutual fund platform and a second platform dedicated to the many different ‘guaranteed lifetime income’ options?” Now, that’s a forward-looking question! We also recently responded to a separate, again very large, state plan RFP which asked for the respondents’ thoughts on “guaranteed lifetime income.”

When the word “guaranteed” is used in conjunction with an investment product, it necessarily means it’s an insurance annuity product; there are only two types: variable and fixed. The essential idea is that the guaranteed amount can fluctuate in a variable product but remains steady in a fixed one. While both have their attributes/advocates, this discussion focuses on the fixed annuity.

Regarding providers, in terms of services to not-for-profit or public entities, TIAA has offered an in-plan fixed guaranteed lifetime income solution since 1918. MetLife was an early entrant in the fixed annuity market for for-profit entities and has just recently reinvigorated its efforts. Blackrock and AllianceBernstein are developing target date solutions integrating a fixed annuity into the glide-path for the large market. Maybe the most surprising entrant is Principal which has made the most dedicated commitment of all – and for its small/mid 401(k) plans. Its “Personal Pension Builder” allows participants to make payroll deductions, or lump sum purchases, of a deferred fixed annuity.

While all of these are admirable efforts, they also all suffer, to date, from low participant uptakes. But to the creative, that impediment is an opportunity. In short, we believe that the challenge of maximizing retirement income over a lifetime (the burden of which falls disproportionately on women’s shoulders because of their longevity) demands that annuities be part of the conversation.

When and if you want to learn more, we’d be happy to share our experiences and insights. Until then, we’ll keep tilting at the windmill.



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