

RETIREMENT INVESTING

Lifetime income: from skepticism to adoption

The proliferation of guaranteed lifetime income products has been rapid. This growth is partly due to legislative changes, such as the SECURE Act's safe harbor provisions, which opened the door for the inclusion of annuities within a Qualified Default Investment Alternative (QDIA). It's also embedded in a longer-term trend of trying to replicate the most beneficial aspects of defined benefit (DB) plans within the new defined contribution (DC) landscape. Additionally, there's a growing demand from employees who want to know what income they'll receive in retirement.

However, questions, concerns, and complexities still need to be addressed. The swift push for lifetime income has left some feeling a sense of whiplash, as if the product is being sold, rather than genuinely sought after. To discuss this ongoing journey for both plan sponsors and advisors, we spoke with Chuck Williams, CEO of Finspire, Jim O'Shaughnessy, Managing Partner, Retirement and Private Wealth at HUB Retirement, and Kim Cochrane, Director of Client Services at HUB Retirement and Wealth Management.

Key takeaways

- Plan sponsors and advisors must navigate the complexities of lifetime income products, emphasizing the importance of education and clear communication.
- Despite growing interest, there is skepticism and hesitation among advisors and plan sponsors due to the perceived novelty and potential costs of these products.
- Effective communication of lifetime income solutions begins with simplifying the concept.

The lifetime income journey for plan sponsors

The journey fundamentally begins with plan sponsors and what they are looking to achieve with their retirement planning. Lifetime income is only a small piece of a much larger retirement strategy, which is itself just one component of an entire benefit provision that companies must develop and monitor. To Chuck, this is the starting point. “One thing to understand is the company’s philosophy and the objective of their 401(k) plan. Historically, their primary goal was to help employees build a big enough nest egg for retirement. Now, we’re asking them if that’s still the philosophy or if it’s something beyond that. Do we want to help employees through retirement and convert that nest egg into an income stream? And that’s a leap for some clients. Employees want it, and sponsors are looking at it, and that is a shift.”

The journey also has to be put in motion for plan participants, who should be the ultimate focus for plan design and benefits provision. As Kim points out, “Most employees don’t annuitize. They don’t understand what an annuity does; they don’t know about crediting rates or any of the other technical underlying language. I’m concerned that we are asking participants to pay for something that they’ll never use. Many participants have their own investment accounts, with which they can buy an annuity outside of the plan. We need to ask why we should bake in an annuity, especially considering the extra cost.”

Jim also addresses the broader pressures on advisors’ time and knowledge, along with extraneous factors around lifetime income such as legislation and litigation that impact the ability of plan sponsors to implement lifetime income solutions. “The industry is working through these issues at the plan sponsor level, but there is a way to go from legislation and regulation and understanding of potential litigation issues to product and communication. We are having second, third and fourth conversations with plan sponsors. While early adopters have moved forward, we have to work to overcome old perceptions of retail annuities.”

Breaking down these complexities into simple, bulleted lists to discuss with plan sponsors has worked well for Chuck. When he talks to plan sponsors, he focuses on three elements: “Cost, complexity and control. Complexity would be, in my opinion, at the top. Can the committee understand it? Can the employees? Portability isn’t typically discussed, but we bring it up as an additional point.”

However, there is still work to be done to convince advisors that they need to engage plan sponsors about these products.

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Chuck Williams

Managing Partner, CEO, Finspire, LLC

Kim expresses her reluctance, saying, “As a skeptic, when I hear ‘This is the next big thing’ I don’t necessarily buy it. Like managed accounts, we can talk about all these bells and whistles, but is it any more than just the shiny new thing? The way I see it we need food, shelter, and clothing, and then we can add other things. And it is the same with retirement plans. There is so much still to do to shore up on the basics.”

Lifetime income journey for advisors

Conversations are also needed around how these new products integrate into the ongoing retirement advisory business and how they might run side-by-side with what would traditionally be a wealth advisory practice. Kim says, “People who would normally look for these products, we’d refer them to a wealth advisor. But who is the right advisor for an in-plan annuity? That crossover is where private wealth advisors are competing, and there is a danger that it becomes a sales pitch

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Jim O’Shaughnessy

Managing Partner, HUB Retirement and Wealth Management

for two different annuities. In that case, are we doing what is best for the employees?” The knowledge needed to navigate these conversations is a challenge for advisors, who are already stretched thin. Kim notes, “I am not a wealth advisor. With so much happening, do I have the bandwidth to add more knowledge?”

Jim agrees, noting that the complexity of these products and how new they are to retirement advisors can impact how sales develop. “These shouldn’t be rapid conversations; we need a slow review to make sure that it is the right solution.”

With that additional strain on advisors in mind, Chuck sees the need to target specific outcomes and ensure that this is measurable. “How are we going to define success? And from an advisor standpoint, is this where we should be prioritizing? Having these initial conversations has really helped and led to a better understanding of their plan, but we need more case studies. That will create an easier roadmap for advisors to go from theory to implementation.”

Questions remain about whether this will all be worth it in the long run. For Kim, “Annuities are sexy when rates are high. When rates fall, annuities won’t be the be all, end all.”

What still needs to happen

A lot of work still needs to happen among advisors and the solution providers before everyone is more comfortable talking about these products. To Jim, some specialization needs to occur: “We need more experts on these solutions, both in-plan and retail. I’m surprised it hasn’t been faster in institutional.”

Kim, on the other hand, believes the relationship between retail wealth advisory and retirement advisory needs to improve. “This almost takes comp out of the pocket of the average wealth advisor; institutional pricing is great but for an advisor this has to be automatic. I don’t have capacity to do the extra heavy lifting if I’m not going to be compensated.”

But Chuck reminds us that this is all part of the job of being an advisor. “It’s analogous to anything that is new. We will digest it little by little. It’s uncomfortable for advisors to admit to a client ‘We don’t know everything on this but we’re learning’, but that’s what will have to happen here. We, as advisors, have an obligation to understand lifetime income.”

Keeping an eye on the holistic needs of clients has to remain a priority, as does their overall plan design and priorities. Kim highlights the need to keep this big picture in focus, adding, “90% of what we do is consultation of plan provision — how to build a plan, what’s in the best interest of your employees, risk mitigation. There is also a lot of time spent on advice for individuals: what to do, how to invest, buying a home, kids, marriage. This takes up what valuable time we have with clients.”

Once the lifetime income conversation has developed, it needs to be structured correctly. For Kim, it has to be simple: “Start with non-annuity terminology. We don’t need complexity. We want something understandable off the shelf to the employee, committee and advisor. A solutions provider needs to say what this solves, which is a pension-like distribution. Forget the rates, loyalty bonuses etc. Keep it simple and we will be able to communicate the value.”

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Kim Cochrane

Director, Raffa Retirement Services HUB Retirement and Wealth Management

ABOUT THE ADVISORS



Kim Cochrane

*Director, Raffa Retirement Services
HUB Retirement and
Wealth Management*

25+ yrs exp

- Focuses on corporate and non-profit retirement plans, including pension plans, 401(k) plans, 403(b) plans, profit sharing, cash balance and executive benefit plans
- Works with plan trustees on addressing their fiduciary responsibilities and working with individuals on managing their retirement accounts



Jim O'Shaughnessy

*Managing Partner
HUB Retirement and
Wealth Management*

32 yrs exp

- Serves as a strategic and operational leader for both the institutional and wealth management teams
- In 2005, he co-founded Sheridan Road Financial, growing the company to over \$13 billion in AUM before joining HUB International through acquisition at the end of 2018



Charles Williams

*Managing Partner, CEO
Finspire, LLC*

25+ yrs exp

- Provides oversight of Finspire, LLC and is a lead consultant for many of the firm's corporate retirement plans and high-net worth individual clients
- Devoted to enhancing the financial well-being of Finspire's institutional and individual clients through sound, objective financial advice based on a thorough understanding of their needs

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