Reprinted with permission from–

November 29, 2010 Pensions&Investments® PIonline.com

THE INTERNATIONAL NEWSPAPER OF MONEY MANAGEMENT crain

Defined Contribution

AllianceBernstein adds annuities to funds

Multiple insurers make target-date strategy different

By Robert Steyer

AllianceBernstein LP, New York, is launching a series of target-date funds with an annuity component, seeking to persuade executives at large defined contribution plans to overcome their reluctance to adopt lifetime income options.

Barclays Global Investors (now BlackRock Inc.) pioneered the structure with its Sponsor Match target-date funds (now called LifePath Retirement Income) in 2007. But after three years, that product still has no clients. Prudential Financial Inc. also offers target-date funds with an annuity component.

AllianceBernstein officials say their version — Secure Retirement Strategies — is different because it has the backing of three insurers, making it the first multi-insurer product on the market.

"Any plan sponsor is concerned about insurer risk, and having multiple insurers is comparable to the holy grail," said Lori Lucas, executive vice president and defined contribution practice leader for Callan Associates Inc., San Francisco. "This would be a unique product."

Having multiple insurers "mitigates one of the key risks (insurance company default risk), and that's important," said Toni Brown, director of U.S. client consulting and head of U.S. defined contribution for Mercer, based in San Francisco.

AllianceBernstein's target is U.S. defined contribution plans with $1 billion or more in assets, said Mark Fortier, head of product and partner strategy for AllianceBernstein Defined Contribution Investments. "While any large DC plan could be a candidate, our experience has shown that companies with recently frozen DB plans are the most interested."

Seth Masters, AllianceBernstein

Said Seth Masters, chief investment officer of blend strategies and defined contribution at AllianceBernstein: "Participants and sponsors both need something that's simple."

"We needed an in-plan guarantee that combined the core benefits of DC and DB plans by retaining the participant's need for control and opportunity for growth with the certainty and security of a lifetime income stream."

Company officials spent more than four years designing a product that would address concerns ranging from fiduciary responsibility for sponsors to reasonable pricing for participants to an attractive opportunity for insurers, Mr. Masters said.

"I've been in this industry for two decades and this is by far the most complex problem I have had to tackle from an investment management standpoint and an administrative standpoint," he said.

At first, AllianceBernstein executives considered creating something that incorporated existing concepts and products. "But it was like taking two motorcycles and smashing them to make a car," he said. "The motorcycles didn't work well, and this wasn't a car."

So, AllianceBernstein decided to start from scratch, developing a plan that would feature multiple investment managers and multiple insurers for a lifetime income product that would be part of the default option.

In addition to AllianceBernstein, the investment managers are Wellington Management Co. LLP, Pacific Investment Management Co. LLC and State Street Global Advisors.

Three insurers are providing the group annuity — Lincoln Financial Group, Nationwide Mutual Insurance Co. and AXA Equitable Life Insurance Co. "We're open to more insurers if they meet our specifications," Mr. Masters said.

If one insurer defaults, "the participant's account value is fully protected by the nature of the guaranteed withdrawal

benefit, which keeps the assets invested in the plan," Mr. Fortier said. New capacity would be allocated among the remaining insurers, he said.

Like the design

Executives at the participating insurers said they like the design. They committed now to providing the annuity, even though the Department of Labor is working on guidelines for lifetime income options.

"We didn't want to wait" for the DOL, said Cathy Marasco, associate vice president for product development for annuities at Columbus, Ohio-based Nationwide. "We wanted to be part of this launch." With three insurers participating, the AllianceBernstein design "allows us the flexibility to manage the risk," she said.

The AllianceBernstein approach "offers the correct balance between the fiduciary concerns of the sponsor and a product design that's clear and straightforward for the participant," said Keith Namiot, vice president and head of employer-sponsored markets product development at AXA Equitable, New York. "From a fiduciary standpoint, a large sponsor having multiple insurers in the guarantee process is absolutely critical."

Said Eric Levy, vice president and head of defined contribution products at Lincoln, Radnor, Pa.: "I've talked to a number of megamarket sponsors who would say to me their peers 'are all waiting for me to make a decision,'" Mr. Levy said. "We think this is the beginning of the megamarket approach."

Consultants say that while having multiple insurers is important, that deals with only part of the equation. The bigger piece is how many plan executives will plunge ahead before the Labor Department issues its guidelines.

"Many of our clients are on hold and are not willing to do anything" until the DOL acts, said Alison Borland, retirement strategy leader, Aon Hewitt, Lincolnshire, Ill.

"A small minority are committed to taking action of some sort," said Ms. Borland, adding that she isn't familiar with all of the details of the AllianceBernstein offering. "I wouldn't be surprised if AllianceBernstein is included in their list (of lifetime income option candidates), but I can't speculate."

Speaking generally, Ms. Borland said that although AllianceBernstein appears to have addressed the single-insurer risk, the company still must deal with many hurdles, such as plan executives' administrative concerns, cost and participants' interest.

Acceptance of annuities embedded within 401(k) plans — especially those at the biggest plans — has ranged from disappointing to modest.

Although AllianceBernstein hasn't made a sale yet, one large manufacturing company is "pretty close" to signing up, said that company's chief investment officer, who asked not to be identified.

"We've been discussing this for many years," said the CIO, whose 401(k) plan for salaried employees has assets exceeding $15 billion. "We feel this is the right way to go."

Even if the company chooses the AllianceBernstein product as its qualified default option, it will take 12 to 18 months to implement.

This company looked at other lifetime income products, but its executives believe AllianceBernstein will provide flexibility of use and simplicity of understanding for employees, the CIO said. ■