IGNITES

AllianceBernstein Debuts New Breed of Target-Date

By Mariana Lemann

November 30, 2010

AllianceBernstein has launched an in-plan guaranteed income target-date fund it claims is engineered to overcome the design flaws that have stymied similar products.

Secure Retirement Strategies (SRS) is a multi-manager target-date fund series that incorporates a guaranteed lifetime income component backed by three insurance companies: **Axa Equitable Life Insurance Company**, **Lincoln Financial Group** and **Nationwide Financial**.

In a separate account structure, the target-date fund is offered with maturity dates in five-year increments ranging from 2010 to 2055. It has a guaranteed lifetime withdrawal benefit (GLWB) to which assets are funneled when participants reach midlife, or around 48 years old. SRS's asset allocation model includes multiple managers, such as **Pimco**, **Wellington Management**, **State Street Global Advisors** and **AllianceBernstein**. The guarantee covers passively managed asset classes.

Incorporating income guarantees into retirement plans has been a puzzle that asset managers, recordkeepers and insurance providers have been trying to solve for quite some time.

A handful of firms, including **BlackRock** and **Prudential**, have launched target-date series that offer some form of guaranteed income, with varying degrees of success. In fact, **Allstate** was forced to scrap its ClearTarget Retirement Fund series last year. At the time, analysts said the product, which was launched in the teeth of the recession, was doomed by a combination of low asset levels, poor timing and the challenges inherent in offering such products.

BlackRock, for its part, relaunched its SponsorMatch series a little over a month ago in partnership with **SunGard**, which was brought on to provide technology to integrate the product's annuity component into recordkeeping platforms.

While defined contribution plan sponsors are seeking guarantees to add to their plans, they have been cautious about embracing the few products currently available. Their concerns range from the fiduciary liability associated with defaulting participants into an investment that offers income guarantees to the portability of the insurance component and the risks associated with the insurer backing the guarantees.

Mark Fortier, head of product and partner strategy at AllianceBernstein Defined Contribution Investments (ABDC), says his firm's version has been tailored in response to those concerns.

"A lot of our effort went into working with large plan sponsors to address what their concerns were," he says. Other providers, he says, "put out a product and want the market to come to them; we wanted to make a product for the market. We've been working on the multi-insurer process even before the correction."

The product is portable on the participant, plan sponsor and insurer levels, Fortier says. Participants can roll their assets into an IRA account, plan sponsors can take the guarantee to another recordkeeper, and insurers can be replaced.

The new series is targeted at large defined contribution plans, or those with at least $1 billion in assets, and according to Fortier, an unnamed plan sponsor with $15 billion in plan assets will begin offering the series to its employees beginning in 2012.

The main issues addressed by multi-insurer structure are pricing and capacity, Fortier says. "The single insurer risk often gets characterized as a default risk problem, but that misses the real issue. If you are an insurer faced with a risk management issue, you raise the price, you limit the capacity, and the last thing you are going to do is default."

The three insurers chosen to provide the guarantee have strong brands and strong balance sheets. These companies, Fortier says, also demonstrated an interest in participating in the DC marketplace.

The allocation to the three insurers follows a predetermined formula designed to encourage competition among them, Fortier says. The most competitive of the insurers gets a higher portion of the allocation, and the allocations are revised quarterly.

The plan sponsor determines the price for the guarantee. AllianceBernstein suggests 100 basis points as an appropriate price level for the guarantee.

“So what the insurer in this equation has is the right to set the appropriate withdrawal rate for that fixed price. The amount of allocation is a function of the competitiveness of that withdrawal rate,” Fortier says. “All of this is complexity that the participant doesn’t see.”

Besides competition, having multiple insurers back the guarantee helps assuage concerns about default risk.

While the risk of default by a single insurer is not a big one to policyholders, it is a real concern in the minds of plan sponsors, says Tamiko Toland, managing director of retirement income consulting at **Strategic Insight**. “Plan sponsors don’t necessarily feel that Erisa covers them. They haven’t been getting guidance on how to deal with these products.”

Spreading the insurer risk among three carriers may appease large plan sponsors that have been reluctant about the choice.

“Three would be a good minimum,” Toland says about the number of insurers backing the guarantee in the product. “If one company has reached capacity, then you still have multiple companies that are participating. Depending on what goes on in the marketplace and depending on how the product does, they may add more insurance companies.”

That may well be the case, Fortier says.

“If there is an issue on the long-term success of income inside DC plans, that is capacity. To be successful, you have to have more insurers down the road. It is not a matter of if, but when,” he says.

AllianceBernstein’s new product answers many of the objections sponsors have had to the products, says John Carl, president at the **Retirement Learning Center**. But its success hinges on the firm’s “ability to raise assets by convincing plan sponsors to utilize it as a QDIA [qualified default investment alternative],” he says. “If they can get that, then the product has a lot more potential.”

Adds Lou Harvey, president at consulting firm **Dalbar**: “This is close to the ideal product for today's 401(k) world. It is ahead of regulations moving forward in Washington, it's a no-brainer for plan sponsors and a no-brainer for participants.”

AllianceBernstein
Defined Contribution Investments

www.abdc.com

What “Target-Date” Means: The "target date" in the fund's name refers to the approximate year when a participant expects to retire and begin withdrawing from his or her account. Target-date funds adjust their asset allocation over time, seeking greater asset growth in early years and gradually lowering risk as participants near retirement.

Investments in Secure Retirement Strategies are not guaranteed against loss of principal: At any time, account values can be more or less than the original amount invested—including at the time of the fund's target date. Also, investing in Secure Retirement Strategies does not guarantee sufficient income in retirement.

Investment in Secure Retirement Strategies carries certain risks. Plans should consider all risk factors when deciding whether to invest in Secure Retirement Strategies. Plans should consult with their own legal and tax advisers before investing in Secure Retirement Strategies.

All guarantees are based on the financial strength and claims-paying ability of the insurance companies.

AXA Equitable financial products and services are issued by AXA Equitable Life Insurance Company (New York, NY).

Lincoln Financial Group is the marketing name for Lincoln National Corporation and insurance company affiliates, including The Lincoln National Life Insurance Company, Fort Wayne, IN, and in New York, Lincoln Life & Annuity Company of New York, Syracuse, NY. Variable products distributed by broker/dealer-affiliate Lincoln Financial Distributors, Inc., Radnor, PA. Securities and investment advisory services offered through other affiliates.

Variable annuities are underwritten by Nationwide Life Insurance Company (Columbus, OH), a member of Nationwide Financial.