



Annuities for 401(k)s meeting resistance

Some advisers say the products are confusing, lack portability and are expensive

By **Lisa Shidler**
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Financial advisers are resisting using annuities designed for 401(k) plans which are created by insurance firms.

Insurance companies began targeting the defined contribution plans of larger corporations with the expectation that the products would gain momentum and eventually would be used in smaller markets.

Advisers are pushing back, however, arguing that 401(k) plans should be used solely for the accumulation of assets and that it is too confusing to have income products inside these plans. Also, some advisers say, the products lack portability, and they are expensive.

"The employee today is confused," said Terrence Morgan, president of Ok401k Inc. in Oklahoma City, Okla. "How are you going to explain this to them?"

Relying on annuities as an option inside 401(k) plans is an awful idea, and insurance companies aren't concerned about the lack of portability, he said. Ok401k advises companies with as much as \$10 million in 401(k) assets.

"The insurance companies say they're working out portability, but they don't give a darn," Mr. Morgan said.

The lack of portability was one aspect of these products that was hotly debated at the Western Springs, Ill.-based Center for Due Diligence's conference last week in Scottsdale, Ariz. More than 1,100 people in the financial services industry attended the conference.

MetLife Inc. and Merrill Lynch & Co. Inc., both of New York, pioneered the income products in 2004 when they offered the Personal Pension Builder fixed annuity. In 2005, Genworth Financial Inc. of Richmond, Va., launched a group variable annuity offering called ClearCourse.

In early 2006, The Hartford (Conn.) Financial Services Group Inc. began offering Hartford Lifetime Income, an optional benefit for variable annuities that guarantees minimum lifetime income. In January, Newark, N.J.-based Prudential Financial Inc. began offering a group variable annuity rider as an option for retirement

plans.

However, some advisers are not ready to write off insurance products.

The products are so new that it's too soon to tell if consumers will latch onto them, said Stephen Smith, a Dallas-based vice president at Diversified Investment Advisors Inc. of Purchase, N.Y.

"I think it's a work in progress that's not ready yet," he said. "I think it's something that insurance companies have invented, but that doesn't mean it isn't a need."

In fact, there is a place for this type of product, said David Longfritz, a senior vice president and general manager of retirement income and rollover solutions for Boston-based John Hancock Financial Services Inc. He's part of a new division that is investigating these options, but his company doesn't offer annuities for 401(k) plans.

As with any new product, there are issues to be ironed out, but Mr. Longfritz believes that the cost of these products in 401(k) plans will be less, compared with the cost in the retail area, and the complexity of the investments is not an issue.

"I could make an argument that 401(k) plans are more complex than variable annuities," he said. "The 401(k) guys just don't know about this yet."

In fact, insurance company officials say they worked hard to create simple products, but the sales cycle for these products is longer because they are new to the industry.

So far, The Hartford has yet to complete a sale, though officials stress that it takes time to explain the new concept to large corporations. One large plan sponsor, however, is seriously considering it and may adopt the option.

"We look at this as filling a gap that's in the defined contribution space," said Pat Harris, director of product management for income products area for The Hartford's Lifetime Income product.

In fact, participants are craving guarantees, said Doug McIntosh, vice president of retirement income for Prudential Financial. Since January, 15 companies have signed on to Prudential's IncomeFlex.

His company's solution to the lack of portability is that participants can transfer money by rolling it into an individual retirement account. He believes that these products eventually will be a mainstay in 401(k) plans.

"From a legitimacy standpoint, this isn't recognized by everyone," Mr. McIntosh said. "But a year from now, when you've got a bunch of companies in the Fortune 50 using one of these options, I think it'll be a very different conversation."

Even though sales are slow, there's huge interest in these plans, said Fred Conley, president of institutional retirement at Genworth. Three large companies have adopted the product, and four more are considering it.

Mr. Conley said the investments have a place in the 401(k) space.

“Bringing a new approach to the 401(k) space takes a little time to work its way through the system,” he said. That may be true, but questions remain about the strategy.

Determining how to handle income at retirement should be decided when a person is close to retirement, said Bob Morales, president and registered representative with Morales & Associates in Reno, Nev. “My personal feeling is, participants should be able to make those decisions when they retire.”

These products require continuing scrutiny.

“The overall idea of purchasing a safety net is a sound idea, but the devil is in the details,” Mr. Morales said.

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