



Interview with
MICHAEL DE FEO



WHY IT'S (FINALLY!) TIME TO GET EXCITED ABOUT IN-PLAN RETIREMENT INCOME PRODUCTS

Several instrumental factors have converged in the retirement income space that help overcome long-running barriers to widespread adoption.

The reduction of defined benefit pension plans and the rise of their defined contribution counterparts means more Americans are more responsible for a greater share of their retirement income.

While products and strategies exist to aid workers with effective accumulation *and income* strategies, it's a complicated challenge, especially for providers of employer-sponsored retirement plans.

Yet recent events, including new legislation and technological innovation, have many industry pundits and players believing we've arrived at a sea change for guaranteed lifetime income that removes many traditional hurdles to in-plan adoption.

Michael De Feo, Head of Defined Contribution Distribution at Allianz Life Insurance Company of North America, sat with *NAPA Net the Magazine (NNTM)* for a wide-ranging interview about where we are and where we're going with in-plan retirement income—and why's he so excited for what the near-future holds.

NNTM: We've recently seen that American workers' confidence in their ability to finance their retirements is dropping. What factors are driving this decline in confidence?

DE FEO: The volatility of 2021 and 2022 was striking. You put a global pandemic on top of

that, and American workers are in shell shock. We'd come off a long string of years where people were used to seeing double-digit returns in the market, and now we are not, and that erodes people's confidence.

More importantly, there's uncertainty around Social Security — leaving people to look for additional sources of guaranteed income to afford the retirement they want. We also haven't had to worry about inflation for the previous 10 or 15 years. Suddenly, folks are more concerned with inflation and the cost of health care. One of the largest costs in retirement is health care. And when you look at a household budget, healthcare costs are taking up an unprecedented amount of the budget. Lastly, add in longevity; Americans are living longer, and people fear outliving their retirement savings.

These issues, coupled together, create a mix that undermines retiree and employee confidence. The only tool most individuals have had to counteract this is diversification with a noncorrelated portfolio. It should provide enough diversification to overcome any one risk in the portfolio, but now even that is getting stressed.

NNTM: How do guaranteed lifetime income solutions help solve these key retirement challenges faced by participants?

DE FEO: Ours, as a fixed index annuity, is designed to be a conservative investment

vehicle suitable for an individual approaching or in retirement. They smooth out the bumps in the road. You're getting something that can help address inflation, provides flexibility, and allows the participant to redeem at any time as long as there's a market value associated with the account. It has aspects like a more traditional investment option in that a participant's account value can grow based on the performance of an index, but it also has features that guarantee that income is generated and can grow over time.

NNTM: Now, adoption of retirement income solutions has historically been slow.

Do you think there's an education and awareness issue?

DE FEO: Yes, and I'm reminded of how target date funds were misunderstood initially. When target date funds were first introduced, it wasn't unusual for an employee to misuse them. They might allocate a portion of their savings, but then they'd be in other asset classes, and they weren't getting the benefit of the target date.

It's the same for in-plan annuities and similar products. People think they're complicated and don't know how to use them, but now they include flexibility. They can be utilized with fiduciary oversight, guardrails, and discretion. It means some of these traditional objections around these products have been greatly reduced. And we

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think it's a way to help Americans retire with dignity.

I want to point out that we insure things of value in our life. We insure our homes, cars, businesses, etc. Other than their home, for many individuals, their most valuable asset is their retirement savings. So why shouldn't we have a tool to insure retirement savings against market risk?

NNTM: It's traditionally a complicated story to tell because of the branding around the 'A' word, annuity. What's made it easier now? Why are they gaining traction now as opposed to the past?

DE FEO: Legislative changes, for one. There's exemptive relief in both SECURE 1.0 and 2.0 that allows annuities to be utilized in plans. That's a significant change. Technology is also a factor. It was hard for recordkeepers to connect with these types of products. Middleware, various user interfaces, and educational tools allow recordkeepers, plan sponsors, and participants to use these investment options and strategies more easily.

Overall, today's annuities are not your grandparent's annuities, so to speak. There are specific products now designed to be in-plan options that deal with some of those historical annuity issues associated with pricing, flexibility, portability, and ease-of-understanding. Again, we're excited about it, and we think that, ultimately, it provides individuals with another tool in their arsenal to help them lower the risks of outliving their retirement income.

NNTM: We're reminded of the cliché, downside protection with upside participation, meaning protection from market declines and limited participation when markets rise. It always seemed like it was just out of reach. Would you say, at this point, that it truly has arrived?

DE FEO: We're getting there. Many of the hurdles that kept people from considering

previous iterations of these strategies are no longer there, like full annuitization. In our case, we use a guaranteed lifetime withdrawal benefit that maintains accessibility and allows a person flexibility even when they turn their income stream on. You're no longer required to make an irrevocable decision to convert the account value to a series of periodic payments in order to receive guaranteed income.

NNTM: What about the portability aspect?

DE FEO: It's key. There are two types of portability: plan portability and individual portability. Ours has an advantage in that a plan is no longer locked into one set provider. Entities offered a lot of the previous products. They were proprietary in nature, making it difficult for a plan sponsor to leave a recordkeeper. We have connectivity with recordkeepers and can move our investment vehicle from plan to plan and recordkeeper to recordkeeper on an individual basis. Participants have a lot of flexibility with a strategy like ours in that if they separate from employment for any reason, they can take this benefit with them and roll it into an IRA. That's uniquely different. They're not forced out of the vehicle; they can take it with them and enjoy the same pricing.

NNTM: How can investments in new technologies, such as middleware, help bring these products to scale?

DE FEO: The understanding of middleware's benefits have evolved over the last 12 to 18 months. In that time, recordkeepers went from believing they would have to connect with insurance companies directly to understanding that flexibility. They were really trying to avoid that because, No. 1, they want optionality, and lots of product choices, and No. 2, they want to establish connectivity with lots of different insurance companies. So, they now have that optionality. It was going to cost a lot of money potentially. No two

insurance providers conduct business in the same way or want file transfers in the same way.

This now allows them to connect "one to many" more efficiently, allowing both sides to do business in a way they're familiar with, and the middleware provider becomes the translator. It's a recognized and efficient way for record keepers to build that connectivity, have optionality, and offer more choices on their platform.

NNTM: Another area where we've seen a lot of innovation is the shift towards more personalization through managed accounts and various hybrid plan designs. Can you talk about this trend?

DE FEO: I don't think there's been a retirement conference in the last three to five years where personalization hasn't come up. Regardless of the market segment, there's a growing consensus that income planning is hard and that it really needs to be personalized. The best income planning is done at a personalized level, and one of the only ways now to deliver that at scale that most participants can access is through a managed account.

People are starting to recognize that more. The market statistics around managed account adoption over the previous years are relatively low, but we're at an inflection point that realizes that income planning can be a differentiator that drives managed account adoption. It shows the participant and the plan sponsor true value, and if they're interested in providing a way to help participants plan for their retirement, here's a suggested way to do it. We can do it with fiduciary oversight and guardrails, so to speak, that really allow a plan sponsor, their advisor, consultant, and the participant to feel like they're getting that personalization, optionality, and something appropriate for them.