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SEI on the hunt for GMWB products

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SEI Investments is meeting with insurance companies to develop a lifetime income product that would employ a guaranteed minimum withdrawal benefit (GMWB) strategy, **Jake Tshudy**, SEI's director of defined contribution investment strategies, explained.

A GMWB is an annuity that offers participants guaranteed lifetime income regardless of market volatility.

The firm wants to make the GMWB offering available on DC plan menus and is evaluating which investment vehicles are best suited for this product, Tshudy added.

The impetus for its product development focus stems from participant confusion over how to draw down the money they accumulated, Tshudy explained. Plan participants tend to withdraw from their 401(k)s or other DC strategy and invest with an adviser rather than seek a guaranteed income option, he added.

SEI could retain more of those assets by offering a GMWB, according to Tshudy.

"It allows us to continue to keep participants well-diversified," he said. "Advisers might not have access or knowledge of the best strategies."

GMWB or QLAC?

Product options that provide income streams in retirement are critical because approximately 10,000 baby boomers leave the workforce every day, **Rob Foregger**, co-founder of digital adviser **NextCapital Group**, said.

"Like SEI, our firm is seeing very strong market demand for guaranteed income," he said.

Participants need lifetime income options but choosing among annuities, qualified longevity annuity contracts (QLAC) or GMWBs is difficult, **Philip Chao**, chief investment officer at **Chao & Company**, added.

While Chao argued that the market needs as many products as possible, he favors guaranteed options.

“People want certainty, predictability, more of a guaranteed type of income they don’t have to think about at retirement,” he explained. “Think about your parents who have no active income. They want to make sure they get a check at the end of each month that they can budget against. They don’t want variability.”

Prodding the populace

SEI wants to launch this offering within a year and anticipates having to demonstrate its value to get plan sponsors and participants to adopt the product, Tshudy explained.

“Through educating participants and demonstrating analysis-based value to plan sponsors, SEI is working towards having GMWBs understood and consumed,” he said.

Getting plan sponsors to add lifetime income options to plan menus requires multiple levels of discussion and significant one-on-one time, **Tim Black**, president of retirement plan consultancy firm **Black Diamond Advisory Services**, added.

“[The] first level is getting the plan sponsor to understand the GMWB solution set, including all of the permutations of complexity of features and pricing,” Black said. “This is not always a high priority for many sponsors or committees — primarily because there are other 401(k) issues that take a higher priority, there is a lack of clarity around fiduciary liability, and there is a limited history for sponsors to look at and learn from.”

Portability and safe harbor guidelines are key issues that may dissuade plan sponsors, Chao added

“We need additional regulations to give safe harbor, [and] greater portability would lead to wider adoption,” Chao said. “If there’s no portability, what the heck are you going to do? You don’t work for the same firm for your [whole] life.”

Ultimately, an out-of-plan GMWB tied to in-plan assets would solve the portability issue, assuming the participant moves assets to a similarly constructed portfolio that has been approved by the insurance company administering the product, according to **Joel Lieb**, SEI’s director of defined contribution, institutional advisory team.

SEI has not decided whether it will construct an in-plan GMWB or out-of-plan GMWB because its still researching feasibility and structures, Lieb said.

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