



Larry Fink (BlackRock CEO): Retirement systems worldwide are under stress and providing financial security to retirees has become one of the most defining societal challenges of our time. Working with Microsoft will enable us to build a powerful solution for millions of hardworking Americans.

## **BlackRock is going big into the annuity business with Microsoft to create a 21st century defined benefit pension system**

The grand plumbing and insurance scheme by the \$6T New York manager and the Seattle-based world's richest firm starts with the firm's CEOs and addresses their mutual existential threat -- Amazon

**January 3, 2019 — 2:28 PM EST by Oisin Breen**

1 Comment

**Brooke's Note:** There is a fine line to draw between a drop-dead, paradigm-shifting move and ill-advised pie-in-the-sky -- especially when it's born of a CEO-to-CEO meeting of two market leaders in two industries. This plan by BlackRock to jump the line to the investor desktop with the help of the desktop itself in Microsoft and give the people what they want -- guaranteed income digitally -- can not be dismissed. Yes, it seems like a wildly aspiring side project. But yes, too, it may be much more. Microsoft is more than aware of what crosstown rival Amazon might be thinking. BlackRock can now look across the East River to Queens at an Amazon campus, too, and wonder what'll happen if the bookseller gets its hooks into investors. So here we have a big stick and a big carrot prodding both Satya Nadella and Larry Fink along in a joint-venture that could have implications for RIAs in a bigger sense than anything the robos have done thus far.

BlackRock has finally showed its hand, and RIAs aren't in the cards. The giant asset manager's plan with Microsoft to launch an annuities-based, defined-benefit retirement system could turn advisors into collateral damage in a looming war against Amazon over dominance of the cloud. See: [BlackRock buys Investnet's love for \\$123 million to crack its 'open-architecture' platform and sets stage for another juicy Investnet acquisition](#)

"Together with BlackRock we will apply the power of the cloud and AI to introduce new solutions that address this important challenge and reimagine retirement planning," Microsoft CEO Satya Nadella said in a news release announcing the deal.



Satya Nadella: Together with BlackRock we will ... reimagine retirement planning.

BlackRock and Microsoft described the budding alliance as a “cutting-edge” new platform that will sell “guaranteed income” products not found “in 401(k) and other retirement plans.”

Microsoft's future depends largely on whether its cloud, Azure, can complete successfully against Amazon Web Services and Google Cloud. The move into asset management with a dominant player like BlackRock, could strengthen its hand.

BlackRock, which relies almost exclusively on third-party distribution of its products, is also staring down the barrel of the distribution mega-force. Amazon is already entering into banking and many people believe it could soon become a force in retail investing. See: [Ron Carson 'arrived' after investing \\$52 million, grabbing Orion and TD talent and pre-empting Amazon.](#)

Meanwhile, RIAs could be caught in the crossfire.

"This isn't just about ramping up plumbing, per se. This is a wholesale shift to viewing technology as a distribution channel, which is an entirely new phenomenon," says Michael Kitces, co-founder of the Bozeman, Mont.-based XY Planning Network and writer of the popular Nerds Eye View Blog.

RIAs face a survival risk, if moves like this prove a rip-roaring success, and other asset managers join the fray, adds David Lau, CEO of RIA insurance supermarket DPL Financial Partners, via email. "This potentially represents an existential threat."

"The competition with asset managers will be around embedding your technology at client entry points, such as the workplace, as asset management and products are commoditized," he says. "Controlling the technology will be the dominant way to distribute products."

"For consumers, [asset managers] are replacing advisors," he says. "Advisors falsely believe they don't lose clients to them, but the reality is they are probably never getting the opportunity to win the client [in the first place]."

## Guaranteed income

New York-based Blackrock, which manages \$6.4 trillion in assets, announced it's latest move in late December, and teamed up with software giant Microsoft, after a secret meeting between the two firms' CEOs.



David Lau: This is a threat for RIAs as BlackRock continues to take steps to grab clients as they enter the workplace.

Laurence Fink, CEO of BlackRock and Satya Nadella, CEO of Microsoft, reportedly commiserated over "how to tackle pressures on society," the Wall Street Journal reported, citing anonymous sources.

The upshot is the two giants want to bring back "guaranteed income" on a vast scale to workers through a pension plan based, in part, on annuities.

The lack of investment products in retirement portfolios is the Achilles heel of a system currently built almost entirely around 401(k) plans, according to current thinking at BlackRock

It's clear that both firms see a symbiotic relationship in their pairing. Microsoft can offer up its business reach -- read the huge number of employees using Microsoft enterprise services -- while BlackRock's gets a distribution platform that sidesteps advisors, with annuities in a leading role. See: [BlackRock may build the biggest, baddest RIA platform yet as 'Boy Wonder' begins 'Aladdin-izing' FutureAdvisor](#)

Until now, BlackRock has had no direct-to-retail distribution system.

"Retirement systems worldwide are under stress, and providing financial security to retirees has become one of the most defining societal challenges of our time," said Fink in a release. "BlackRock has a tremendous responsibility to help solve this challenge." Fink has fashioned his firm in recent years as a moral force. See: [Chafing under \\$4 trillion of passive assets, BlackRock CEO warns Fortune 500 CEOs he may bring other activist means to bear](#)

## Naming spades

If the two firms can pull it off, it's going to be a real coup, says David Stone, CEO of Louisville, Ky.-based RIA insurance vendor, RetireOne, via email.



Mark McCombe: [The technology could] prompt you through daily life and show there are ways to reach financial goals in retirement.

“Annuities are the one segment of financial services for which technology has not been able to lower costs ... but the benefit (income guarantee) remains unique.”

The murkiest aspect of the BlackRock-Microsoft collaboration is just how they plan to provide two key defined benefit ingredients neither firm knows a lick about -- selling annuities, and record-keeping participant assets.

The insurance industry has been blighted a sales model riven with conflicts, from captive agents paid on commission, to the paradox of firms selling one product as a panacea, says Mark Forman, senior managing director for marketing and PR at RetireOne, via email.

"That [old] system can organically breed the kind of sketchy sales tactics that have given all annuities such a bad rap."

It should come as no surprise then that BlackRock and Microsoft -- with their sparkly brands -- are aware just how low annuities are viewed by investors. But the sizzle they'll be selling is "guaranteed income," and that could resonate widely with retirement-minded consumers.

BlackRock's involvement is a much needed shot in the arm for the annuity industry, says Stone. “The traditional commission annuity world has been shrinking and is subject to much ridicule in the financial press. To be relevant, the annuity industry needs to partner with firms like BlackRock.”

BlackRock's and Microsoft's link-up also comes as the green shoots of an annuity 2.0 era begin to take root.

Old-line insurers realize they can sell their products on a non-commission basis and revitalize an often "ridiculed" sales model that, nonetheless, puts retirement income in a rare safe refuge, according to a number of sources. See: [Decades-old stench of annuity sales and deception hangs heavy, but very 2018 efforts by DPL, Nationwide, Allianz and others offer whiff of hope of cracking the RIA market.](#)

It's the shape of things to come, says Francois Gadenne, co-founder and head of Boston not for profit research organization, The Curve, Triangle, & Rectangle Institute, via email.

“[It's] similar to Edelman's deal with Financial Engines, and Envestnet's deal with Yodlee. [These are] deals to pair a monetization engine with client-data.”

Lau agrees: "Asset managers have been moving into asset allocation through robos for a number of years and now they are moving into planning," he explains. "Soon the plan will be commoditized ... [so] RIAs need to evolve to compete." See: [Voids were exposed in the RIA business in 2018; who or what could fill them in 2019](#)

He adds: "Foreseeing the increasing commoditization and subsequent price compression of asset management, BlackRock is wisely moving to own technology, which will increasingly drive and control product selection, and provide product solutions, like guaranteed income, that can keep assets and clients under their control."

## Third-party outsourcing

For now, that SIM card in the cell phone will apparently be outsourced to third-party insurers.

"BlackRock will be in talks with insurance firms that create products similar to annuities," a person supposedly familiar with the matter told the Journal.



Joel Bruckenstein: I don't see much risk on the BlackRock side. Execution and commitment on the part of the partners will be key.

It will also be talking to "other parties involved in handling worker accounts, such as record-keepers that hold data on customers, and custodians that house assets." the Journal reported. The question is "whether they will be willing to be tied to the platform in 2019."

There's also little risk for BlackRock in its annuities strategy, but it will need to choose its dance partners carefully, says Joel Bruckenstein, founder of the T3 conferences, via email.

"The execution and commitment on the part of the partners will be key," he adds.

BlackRock can put its big shoulder behind the cart in another way. "They probably see the outcome for clients as being a BlackRock-built income guarantee as underwritten by an insurer," Stone explains.

These workplace-only products are likely to bundle up iShares ETFs.



Michael Kitces: This isn't just about ramping up plumbing, per se. This is a wholesale shift to viewing technology as a distribution channel, which is an entirely new phenomenon

In fact, neither BlackRock nor Microsoft has explained just how the deal will work in practice--whether BlackRock will underwrite income guarantees, or if the application will come pre-loaded with Microsoft's enterprise software.

Both firms declined to comment, beyond the release.

## Plumb this

BlackRock's annuities move may breathe some life into old-line insurers. On a higher level, however, its partnership with Microsoft evinces a pivot to using technology as a means to distribute and generate revenue, says Kitces.

"[With FutureAdvisor] Blackrock was initiating a major shift in its distribution strategy."

Kitces' observations dovetail with other recent BlackRock announcements.

This month BlackRock hooked its retirement income calculator, iRetire, directly into Boston, Mass.-based Fidelity Investment's eMoney, putting BlackRock's software, and presumably its investment products, in front of the 50,000 advisors who use it.

In late Nov., the asset manager also took a minority stake in Chicago-based software vendor and outsourcer Envestnet. It embeds BlackRock software like iRetire, Advisor Center and FutureAdvisor into Envestnet's open architecture network, which serves 2,500 companies and 55,000 financial advisors managing some \$2 trillion in assets.

It's wrong though to see annuities as *the* key part of BlackRock's strategic shift, says Kitces.



David Stone: I don't think they want to be the underwriter, or guarantor but they probably see the outcome for clients as being a BlackRock-built income guarantee as underwritten by an insurer.

"[BlackRock's] entering a new distribution channel--technology as distribution--and [it's] simply trying to put [in] as much product variety as [it] can, to see what works and what sticks," he says.

BlackRock wouldn't be partnering with Microsoft if "guaranteed income" wasn't a significant play, Lau counters.

"BlackRock is trying to position itself as a cradle-to-grave solution ... [and] retirees have an enormous need and desire for guaranteed income," he explains.

"Now BlackRock can control those assets rather than have them leave to an insurance carrier," he says.

Still, Kitces is right to say that there's a throw-it-at-the-wall-and-see-what-sticks aspect to BlackRock's strategy, says Gadenne.

"In their shoes, I would multiply many combinations of distribution channels [with] many types of products ... in order to see what works and what doesn't. This is evolution in action."

What Gadenne, Kitces, and Lau do all agree on is the fact that other asset managers will follow BlackRock's lead in adding annuities and in using technology as a means of distribution.

Who's next? asks Gadenne. "Who, in the financial industry, will do the matching deals with Facebook, Apple, Netflix, Google, etc?"

## Front loading manna

Neither Microsoft nor BlackRock, which currently oversees about \$1 trillion in defined contribution assets, hid the fact that the chief deliverable is selling guaranteed income direct to employees in bundles front-loaded with BlackRock products.



Francois Gadenne: Who, in the financial industry, will do the matching deals with Facebook, Apple, Netflix, Google, etc.?

"At worst, BlackRock can still sell a helluva lot of iShares into retiree portfolios," the irreverent Kitces says.

The deal also represents a move to counter the ever downward impetus on its fees, as rivals like Fidelity Investments press the race to zero-fee products. BlackRock has been under pressure in the punishing price war. See: [Vanguard's asset machine wobbles under Abby Johnson's withering pricing assault, but Fidelity's new cost-cutting front aimed at advisors is proving more lethal for BlackRock](#)

Annuities are yet to bear the full brunt of the technology-driven price wars hitting asset managers, and lucrative margins of 18% are not unheard of.

## Things to come

For BlackRock, whose multi-year investment and acquisition binge in software companies seemed scattergun and without a single coherent monetizable strategy, the release offers clues as to how the firm intends to fight back against ferocious margin compression in its core asset management business.



Gary Shedlin: Bottom line, [technology] is core to absolutely everything we do at BlackRock.

Where Fidelity's strategy has been to embrace the cross-selling opportunities garnered by a mutual fund give-away, BlackRock chose a different tack. See: [Vanguard's asset machine wobbles under Abby Johnson's withering pricing assault, but Fidelity's new cost-cutting front aimed at advisors is proving more lethal for BlackRock](#).



First signposted by its purchase of the robo-advisor FutureAdvisor, the asset manager's move to solve the problem of diminishing returns is to make all roads lead to BlackRock.

The bet is that, if it owns enough financial infrastructure, it can stack the odds in its favour by turning software into a delivery system stuffed with its own products.

Indeed, at a presentation to Goldman Sachs' US Financial Services Conference on Dec. 5, BlackRock's chief financial officer, Gary Shedlin, was emphatic about the centrality of technology to BlackRock's future.

"Our overall goal is to position ourselves for long-term leadership and to accelerate existing tech-enabled and direct technology revenue opportunities," he said. "Technology enhances all aspects of our business."

Direct technology revenues remain just a small part of BlackRock's overall income, standing at just six percent -- although 18% year-over-year growth in the third quarter explains the firm's double-digit technology growth forecasts. But indirect revenues form the basis of BlackRock's new strategy, cross-selling BlackRock's asset management to users of planning or research software like Aladdin.



Mark Forman: [The old insurance] system can organically breed the kind of sketchy sales tactics that have given all annuities such a bad rap.

Financial technology products like Aladdin, or FutureAdvisor are the future of BlackRock, says Shedlin.

"[They] touch all aspects of our business, generating sustainable alpha in our investment process, leveraging our distribution capabilities and scaling our operations. Bottom line it's core to absolutely everything," he says.

Approximately 25% of BlackRock's 14,000 strong employee-base work in technology roles, putting it narrowly behind Fidelity, in percentage terms, where the figure stands at 30%.

Additionally, since it acquired FutureAdvisor, BlackRock has taken a number of minority stakes in financial software firms, including iCapital, Acorns, and Scalable Capital. See: [Mindful of 'Snapchat' dynamic, BlackRock takes big Acorns stake after the micro-robo wins 2.2 million investors in 12 months](#)

Its \$1 billion per year technology budget, however, remains paltry when compared with industry big-spenders. JP Morgan spends approximately \$10.8 billion; Citigroup around \$8 billion; Morgan Stanley, \$4 billion and Fidelity roughly \$2.5 billion.

Microsoft recently reclaimed its crown as the world's most valuable publicly traded company, a position it lost to both Amazon and Apple, and has not held since 2002. The firm's renewed relevance can be traced, at least in part, to its decision to prioritize the cloud, according to analysts.

If Nadella's statement in the release is anything to go by, his firm sees the pairing up of new retirement products and software as a major deal, says Lau. "No longer are these solutions for "play money" for consumers," Lau explains.

"This is a threat for RIAs as BlackRock continues to take steps to grab clients as they enter the workplace, through the Microsoft deal, and never let them go, with their technology and guaranteed income solutions."