REWIRING AMERICA'S RETIREMENT

BlackRock's **NICK NEFOUSE** on modernizing the system on which half of working Americans depend.

NICK NEFOUSE BEGAN HIS INVESTING CAREER the way young people often do: by losing money. As a high schooler in the '90s, he and his father day-traded stocks over a pay phone. Their strategy was simple: If it had "dot com" in the name, they bought it.

Today, Nefouse is Global Head of Retirement Solutions and Head of LifePath at BlackRock, the world's largest asset manager. More than half of BlackRock's $14 trillion in assets are tied to retirement outcomes. Part of Nefouse's job is, in a sense, making sure millions of Americans don't retire the way he once invested: overexposed, underdiversified and blindsided by a market turn.

More than 11,000 Americans turn 65 every day. Most are navigating retirement without the pension plans upon which retirees could once rely, in capital markets that feel increasingly complex. The responsibility that employers once shouldered through pensions often now falls on individuals, many of whom were never taught the basics of investing.

In a conversation with Brunswick Partner Kylen Fitzpatrick and Director James Connington, Nefouse explained how investing for retirement in America is being fundamentally "rewired." The system was built to help people accumulate wealth, he said. Now it has to help them do something no less difficult: live on it.

You've been at BlackRock more than 20 years. What has changed most about retirement investing during your tenure?

The biggest change is that a retirement account has moved from being an accumulation vehicle—you have a 401(k), you have investments in it, it's something your employer provides—to this idea of it being a personalized pension. We're not at that latter stage quite yet. But this kind of investment used to simply be called a "benefit." Now it's becoming a vehicle for retirement. The country is changing the way we think about it and the way we talk about it.

The Pension Protection Act of 2006 was a watershed moment. Before 2006, people would go into a 401(k) and get defaulted into cash. They didn't know they were supposed to do anything else—somebody told them they needed to start a 401(k), so they started one and sat in cash, not equities. Employers were worried they'd be sued if they put people into equities and those equities went down. Through the Pension Protection Act, the government said, by default, people can go into a multi-asset fund rather than cash. That opened the door to auto-enrollment, auto-escalation, target-date funds—all the things that are now hallmarks of a well-run plan. I think it's a great example of how government can provide tailwinds to help Americans invest for retirement.

Retirement has become a focal point for so much of what BlackRock does. Why?

At its core, BlackRock has always been a retirement company. I think that's often missed. More than half of our assets are retirement assets. The difference now is that retirement used to be in pension plans—those were institutional tools. Now retirement is predominantly in 401(k) plans, and those are individual plans. A different type of help is needed for the individual than if you're dealing with a corporate pool.

You've talked about retirement being "rewired." What are the forces driving that?

First, more people are entering retirement, around 11,000 Americans a day. Second, they're living longer in retirement. And third, we've shifted the burden from the corporation, through the defined benefit plan, to the individual in the defined contribution plan. Those three are linked: more people retiring, living longer, no more pensions—so the individual has to make more decisions and know more.

And then you have capital markets, which are always evolving and becoming increasingly complex, whether that's all the questions surrounding private markets, concentration risks in the S&P 500 ... a lot is happening. And we're asking individuals to spend more time planning their retirement at a moment when it feels really complicated. That's what leads us to the professional management of 401(k) assets and the need for a more pension-like approach.

PHOTOGRAPH BY RICHARD MITCHELL

What's the current state of the 401(k) system?
There's a lot of room for improvement. But the starting point isn't, "This is broken, how do we fix it?" It's: "This is working; how do we improve it? And how do we improve it for a slightly different outcome—spending in retirement?"

For the average American, their retirement account is likely the largest pool of assets apart from their home. We've done a very good job creating low-cost, diversified, professionally managed accumulation vehicles.

Think about what's happened since 2006. It used to be you'd get a stack of papers when you started at a firm—"fill these out and we'll put you in the 401(k)"—and maybe you'd get around to doing that. Then came auto-enrollment. It became, "we've defaulted you into the plan at a 3% savings rate; fill this out if you don't want to be in the plan." People just left the money in. Then auto-escalation: Your savings rate increases by a point or two a year, up to a statutory limit. You can decline, but most people don't. So now you have people who have been in plans for 10 years, saving 10%, 12%, with a match. These savings vehicles are actually very good, if you have access and you're in a well-run plan. About half of Americans are.

But there are two problems I think about. One is: What do we do with the people who don't have access? And the second is: For the people who have done the right things and accumulated roughly the right amount of wealth, how do we convert that into retirement income? Because when you get to retirement and I say, "Congratulations, you've done a great job, here's $700,000," it's the most money you've ever seen in one place. And a lot of people don't know what to do in that moment. They think they should only live off the interest and capital gains and not spend any of this money. They do what's called anchoring—they anchor to the number instead of taking a more dynamic approach to spending.

Where are the biggest information gaps?
Here's an interesting externality: When we introduced auto-enrollment, auto-escalation and target-date funds, we took away the relationship that people had with their 401(k). If it's all done for you, you never had to learn how any of it works.

Now, that's not saying the old way was better. But when you turn 50-something and need to start paying attention again, you're likely to ask, "What's happening here?" So, in your late 40s, early 50s, we're realizing we have to really educate people on what these things are.

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The other gap is behavioral. People don't understand a lump sum versus continual income. If I said, "You can have $300,000 or $21,000 a year for the rest of your life," most people would choose the $300,000. The breakeven is about 13 years. If you think you're going to live longer than 13 years, you want the $21,000. That's the kind of concept people need to learn much earlier, or they're going to sit on their savings and be stressed out.

Annuities have a bad reputation. How do you get past that?
We know that people who choose annuities are happier than the ones who don't. And if you ask the people who have annuities, they'll say, "I wish I had more." They don't call them annuities, by the way. They call them income, or guaranteed income. Turns out nobody wants to buy an annuity, but everybody wants guaranteed income. We jokingly call annuities "the A-word" on our desk.

And look, I get it—historically, annuities have been expensive and illiquid. There have been questionable sales practices. That reputation isn't wrong. But what we're doing with LifePath Paycheck®, for instance, is different. We launched it in 2024 to provide US workers with the freedom to choose what works for them. Specifically, we embedded an annuity purchase option into a target date strategy, which provides eligible participants the ability to purchase a guaranteed income stream for retirement payable by third-party insurers selected by BlackRock. No commission. No sales charge. You get to the point of retirement, you can choose to execute it, and you get that guaranteed income for the rest of your life.

People don't like to talk about their own mortality. They don't want to hear about outliving their money. They're worried about burdening their loved ones, they want to talk about spending time with their family. What they want to hear is certainty. "How do I get a paycheck for the rest of my life?"

That's what this is all about. If I tell someone they're going to get $1,800 a month through their 401(k) plan, guaranteed for the rest of their life, and 70% of their assets on the other side are completely liquid—they can plan and budget, it's Social Security plus that extra $1,800, and they're not worried about running out of money.

There's a lot of debate about private markets in retirement accounts. What are your thoughts?
Private markets are not good or bad. Active is not good or bad. Index is not good or bad. We're managing to retirement outcomes. If private markets

improve the retirement outcome—net of all fees and risks, including illiquidity—then yes, they should be included. And we believe that with the right structure, private markets can improve outcomes.

Here's another way to look at it: Someone's retirement shouldn't be determined by which firm they work for. Pension plans run about 20% in private markets. So, if one person has a pension plan and gets private markets and guaranteed income, but I have a 401(k) I don't—and they're both governed by ERISA—that doesn't make sense.

Access to private markets is important because most companies aren't going public in the small-cap space anymore. They go public as large-cap companies. Twenty years ago, you would have a small-cap premium in public markets. That has largely migrated into private markets. So, the Markowitz principle—that you should invest in all investable assets—suggests you're missing a meaningful chunk of the capital without access to private markets.

This doesn't mean we're going to take target-date funds from zero exposure to private markets to 20% overnight. It means that if I have an 11-building-block target-date fund, should I have building block 12 and 13? If the valuation is right, based on risk, return and liquidity, we should start allocating.

What does the ideal portfolio look like?

It depends on where you are in your life journey. Since pioneering target date funds over 30 years ago, we have been studying how wages typically change over a career, which is essential to designing the right saving, spending and retirement investment strategy. What good target-date funds do is figure out how much money you're going to make over your lifetime, known as your human capital—including shocks, inflation, all sorts of things—discount that back to today, and essentially turn you into a security. Based on your age, we build a portfolio around complementing that risk.

When you're young, you have a huge amount of human capital ahead of you. It's fairly low-volatility, like fixed income—so in your investment account you can own all equities. As you get older, you own less equity risk, not because you become more risk averse as you age *per se*, but because you have less money coming in from future earnings.

A simple way we frame it: grow, protect, spend. When you're young, maximize growth. In mid-to-late career, add layers of protection—guaranteed income, higher-quality fixed income, inflation protection. And in retirement, it's all about maximizing consistency of spending. That's what target-date funds do brilliantly: wrap all of that into a single fund that's low-cost and professionally managed.

What gives you hope for the future of retirement?

First, there's a real appreciation among many in government that our retirement system must modernize to meet today's realities. We've been working closely with the Department of Labor, for example. They're very clear on the importance of retirement and that we need to lead with a rules-based framework, not with litigation. They understand we've shifted the burden onto the individual and that the tailwinds need to shift as well.

Second, Trump accounts: Every child born after 2025 is going to get $1,000 invested in what looks like broad US equities, from a combination of donations and the US government. Parents and grandparents can contribute up to $5,000 a year.

That's an investment in American capitalism. All of these kids—many of whom might have had nothing—are going to have an account. They're going to look at the ticker. They're going to start understanding how capital markets work, how recessions work. And you can't take the money out until you're 18, which is really important, because the longer you're in the market, the higher the probability of a positive return. Over any rolling two-year period, there's roughly a 75% to 80% chance of a positive return. Over any rolling 10-year period, it's more than 90%.

Of course, the longer you're in the market, the higher the probability you're going to experience a big drawdown, and those are nasty. If you're doing this from birth to 18, you're going to live through some of those. And you'll see: "Oh, it works out. The capital markets work themselves out." So, you're building an entire generation of investors who understand how the capital markets work.

What about your own retirement? Any sense what you will do?

I really want to go back and be a history teacher. I love history; I think the reason I enjoy economics so much is because of all the history interwoven in it. And the best teachers I had were ones who had been in industry and brought that practical knowledge into the classroom.

Also coaching. During COVID I was asked to coach one of my kids' lacrosse teams, and that's now turned into coaching two teams. I absolutely love it. As you get older as a coach, you realize it has nothing to do with winning. The team's record is the wrong scorecard. What matters is whether these kids are going to play the following season. ◆

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