Macchia, the Man and the Machine

By Editor Test Wed, Apr 25, 2012

David Macchia, the president of Wealth2k and developer of Income for Life Model, keeps going and going and going... and thinking a lot about the Boomer retirement income opportunity.

I've flown many miles in the retirement space over the past six years, and chances were always good that, in the carpeted lobby of a four-star chain hotel in some city with a large airport, I'd run into David Macchia, the president of Wealth2k. We'd chat briefly; occasionally we'd sequester ourselves for a formal interview. But usually, after a quick exchange, we left each other to his work.

And Macchia (right) works as hard as anybody I know in the retirement space. He's an entrepreneur, so he feels a different kind of pressure from most. Entrepreneurs pressure themselves, and the passionate ones never let up. (Where does the passion come from? A need for redemption? Only they know.) He's also one of the true *students* of the retirement game (insurance division). He's played it a long time. He analyzes it. His goal is to win.

Wealth2k, Macchia's 12-person multi-media marketing firm in Boston, developed Income for Life Model, the web-based, time-segmented, retirement income planning/marketing/communication tool that is the subject of today's lead story in *Retirement Income Journal*. While researching that story, I asked Macchia what he has learned after ten years of promoting IFLM in meetings with broker-dealer executives, bankers and financial advisors.

He said that, after so many years, he's still surprised by how much work remains to be done in changing the financial industry mindset from accumulation to decumulation, and to open the minds of investment-minded advisors to hybrid (insurance and investment) solutions to the retirement income challenge.

His own single-minded immersion in retirement income for the past decade led him to overestimate (not surprisingly, perhaps) the degree to which the Mississippi-like delta of the distribution world has not yet woken to the Boomer decumulation opportunity or learned how to exploit it.

"My initial inclination was to imagine greater expertise around the retirement income issue than there actually is," Macchia said. "Advisors are still trying to [use the principles] of the accumulation world in the retirement domain. They can be extremely helpful in creating accumulation portfolios, but they're still not as good at creating hybrid or income portfolios.

“The level of experience, both on an individual and in many firms, is still undeveloped. That was something of a revelation. It was a revelation was that even competent financial advisors—seasoned, competent advisors—will often ask for or require advice on how to invest in the context of an income generation strategy.”

To go a step further, Macchia believes that most investment advisors in Macchia’s—and he states this without detracting from what they’re good at—have difficulty shifting their focal range from infinity—the indefinite time horizon of Modern Portfolio Theory—to the shorter depth of field that retirement (and death, to be specific) inevitably imposes.

“Let’s say they’re building [an income] floor and using four time segments,” he said. “Most advisors aren’t used to the context or construct of providing a target rate of return over a specific time period. And many advisors, I think, need to be enlightened about the urgency for the inclusion of a lifetime income floor—at least for those clients who don’t have the flexibility or latitude [to tolerate a wide range of outcomes] because they’re close to being underfunded.”

Career-wise, Macchia started out in the insurance business, so he tends to think mainly about the risk side of the equation. “I can remember travelling around in 1988 or 1989 to various financial offices like PaineWebber and doing public speaking about life insurance and retirement,” he said. “I used to talk about the juggernaut of Japanese economy. At that time, the Nikkei average was over 39,000, and my frame of reference was that it would just keep going up. Here we are 23 years later and the Nikkei is still less than a third of what it was at its peak. Imagine the S&P 500 being a third of what it was in 1989. That experience taught me to have no level of security about imagining what can or can’t happen in the future.”

And, while IFLM itself accommodates investment and insurance products ambidextrously, it’s evident that Macchia believes in the need for insurance products in retirement. “The advisor who reflexively rules out insurance doesn’t have a bright future. If they do, my life experience makes me confident that they’ll be wrong for 85% of their clients,” he said. “The inclusion of a lifetime guaranteed income floor is no longer an economic decision. It comes down to a moral decision about how much risk a client can sustain. If your clients can’t sustain that risk, then how can you morally deny them a guaranteed income?”

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