# RIIA ‘Gets’ Open Architecture

By Kerry Pechter *Wed, Mar 23, 2011*

*Few organizations seem to understand the ascendancy of "open architecture" better than the Retirement Income Industry Association, whose mantra is "the view across the silos." Here's a report on its Spring Conference, held this week.*

Open architecture is arguably the key to growth in the retirement income business. Choice and transparency, which now drive the markets for cars, books and shoes, etc., are starting to drive the markets for investments, advice and annuities.

Few financial services trade organizations seem to understand this better than the Retirement Income Industry Association. You can read it in RIIA’s slogan, “The view across the silos,” and hear it in the noisy diversity of viewpoints at its conferences.

The latest of those conferences—RIIA’s fifth annual Spring Conference—was held this week at Morningstar-Ibbotson headquarters in Chicago. Attended by just 150 (but sold-out), it was an occasion for networking, new product presentations, and for marking RIIA’s achievement of a couple of important milestones.

What follows are jottings-down of conference factoids and observations. Certain topics—breaking news from Putnam Investments CEO Robert Reynolds and publication of the third edition of RIIA’s “Body of Knowledge—are handled in the accompanying feature articles.

**Updates on products and services**

Leo Clark, director, Barclays Capital, talked about Barclays Notes for the second time at a RIIA conference. The notes promise to provide 10 or 20 years of flat or inflation-adjusted income for retirees. They compete with fixed-period income annuities and with the fixed-period TIPS-based payout funds currently marketed by PIMCO.

So far Barclays Notes haven’t gotten much traction in the marketplace well and have been met with some skepticism by attendees at both RIIA conferences. One attendee suggested that Notes are a mass-affluent product that is mismatched with Barclays’ traditional high-net worth market.

Others find Barclays Bank, which guarantees the Notes, to be a less credible guarantor than an insurance company. Still others characterized the product as simply “lending money to Barclays” as opposed to using Barclays as a traditional financial intermediary.

Larry Kiefer, systems officer at DST Systems, which designs software and builds systems for 401(k) recordkeepers and other clients, talked about his company’s plans to solve some of the technical problems that discourage plan sponsors and recordkeepers from offering annuity options to participants.

In the third quarter of 2011, his company plans to launch a platform or hub that would connect multiple insurance product providers to 401(k) recordkeepers, participant websites, and call centers.

The hub, which Kiefer called a “field of dreams” project because DST plans to build it in hopes that customers will come, would allow recordkeepers to offer more than one insurance product without having to build a separate system to interface with each insurer, and would allow recordkeepers to switch providers more easily and less expensively.

Jerry Bramlett, vice president and head of U.S. institutional sales and marketing of Dimensional SmartNest, described the Dimensional Fund Advisors’ entry  into the increasingly competitive market for managing the accounts of plan participants as they transition from accumulation to distribution.

SmartNest will be officially launched later this year. It was created a few years ago by a team led by Nobel Laureate Robert C. Merton, and has been used by companies in Europe. It will be a topic of future RIJ stories.

Bramlett’s discussion was juxtaposed with presentations by Sherrie Grabot of GuidedChoice, the 401(k) advice provider that recently launched GuidedSpending, an income program for 401(k) participants without managed accounts, and by David Ramirez, portfolio manager at Financial Engines, which recently launched Income+, a managed account income planning program with which SmartNest will apparently compete.

**A health care cost monster of our own creation**

A panel of health experts and one speaker, Charles Baker, former Harvard Pilgrim Health Care CEO, had scary things to say about the impact of rising health care costs on retirees and on the nation at large.

Baker expected growth in health care costs to continue to outpace inflation and GDP growth in coming years. The larger the health sector grows, he said, the more entrenched and influential the health care industry lobby will be, making it increasingly harder to make the disruptive changes that are necessary to slow the growth in health care spending, now at about 16% of GDP.

Asked what he would do if he were “health czar,” Baker, who ran unsuccessfully for the governorship of Massachusetts in 2010 as a Republican, said he would shift Medicare’s emphasis on reimbursement for high-tech procedures to an emphasis on “cognitive care.”

“What Medicare pays for is where the industry goes. It’s the chassis on which the whole health care system sits,” he said. He would also shift the emphasis of medical education to a team-orientation from an individual orientation.

Physician Bryan Negrini, warned that Alzheimer’s disease will become increasingly prevalent as the U.S. population ages, at much greater cost. The cost of long-term care for someone with Alzheimer’s will come on top of the estimated $250,000 or more that couples should expect to have to pay out-of-pocket for health care during retirement.

**The 80:20 rule, as applied to household incomes**

Doug Short, a retired IT professional whose steady, constantly updated production of stock market historical charts attracts some 2.7 million visitors to his website, dshort.com, gave a presentation called “The Retirement Puzzle in an Age of Uncertainty.”

His slides showed the somewhat startling widening of income growth disparity between the highest-earning 20% of U.S. households, and especially the highest-earning 5%, and the other 80%.

Starting in 1985, and roughly following the contours of the subsequent bull market in equities and bonds, the real incomes of the top 5% roughly doubled, to $300,000. The average incomes of the top 20% rose about 70%, to $170,000. Income growth at lower quintiles was increasingly flat.

Given that by 2001, the top 2.7% of households owned 58% of publicly-traded stock, that may be no mystery—although the relationship between equity ownership and income growth isn’t transparent. It could have something to do with the huge growth of compensation through stock options. The divergence of income also coincided with the rise of U.S. government debt, the 401(k) system, and tax reduction, Short noted.