The People’s Retirement Industry Group

By Kerry Pechter *Thu, Sep 3, 2015*

To mark the Retirement Income Industry Association’s 10th anniversary, RIIA founder and chairman Francois Gadenne (above) spoke with RIJ recently about the group’s past, present and future.

Ten years after the Retirement Income Industry Association appeared on the financial services scene, some people still wonder exactly what RIIA stands for, whom it represents, or where its French-born founder and chairman, Francois Gadenne, will take it next.

Relatively small in terms of membership or war chest, RIIA is unlike other financial trade groups. It doesn’t lobby for regulatory change. It doesn’t organize splashy trade exhibitions. Distinct from other groups in its space—the acronyms include IRI, ARA, SOA, LIMRA, DCIIA, FPA, NAPFA, SPARK—it doesn’t cheerlead for any particular industry sector or profession.

RIIA’s contributions have largely been conceptual. It introduced the cross-disciplinary perspective of the “View Across the Silos.” It elevated a familiar annuity sales proposition (“First build a floor, then expose to upside”) to a guiding principle. It created a new advisor designation, the Retirement Management Analyst, and a curriculum for achieving it.

Founder-led organizations tend to be idiosyncratic, and so it is with RIIA. If its meetings have an unscripted academic vibe, if the guest and speaker lists are eclectic, if the tone is more entrepreneurial than corporate, if RIIA seems oddly consumer-centric for a trade group, and if some of the ideas are heretical, that’s because they reflect Gadenne’s own interests, values and personal history.

RIIA is preparing to mark its 10th year with its annual conference and an anniversary gala in Indianapolis on September 16-18. Gadenne recently spoke with *RIJ* about the organization’s past, present and future. (For transparency’s sake: *RIJ* has no formal ties to RIIA, but I helped edit drafts of early RIIA publications, attended many of its annual meetings, its webinars, and two of its advisor boot camps, and am an individual member of the organization.)

No solo silo

RIIA is primarily an educational organization. Its “Body of Knowledge” is a voluminous paperback textbook that advisors and individuals can use to create safe-money retirement income plans. The book is based on ideas about risk and return. Household economics and demographics come from economists Zvi Bodie and Robert Merton, Andrew Rudd of Advisor Software Inc., researchers at Strategic Business Insights and others.

One of RIIA's founding concepts, the View Across the Silos, gave the "retirement industry" a name and provided a map of its components. These included manufacturers (annuity issuers and mutual fund firms), distributors (wirehouses, independent advisors and insurance agents) and consumers (rich, poor and in-between). RIIA called this map the "opportunity matrix." It showed the elements of the industry as well as their relationships, relative strengths and potential synergies. No one else had ever done this.

RIIA's slogan, "First build a Floor, then Expose to Upside," refers to the idea, not original to RIIA, that retirees need a foundation of safe income plus growth potential through risky investments. It was shorthand for a sophisticated recognition, which Gadenne attributes to Bodie and Merton, that while accumulating wealth involves risk-taking, retirement planning involves taking certain risks off the table.

The Society of Actuaries had already done a good job of cataloging the risks of retirement—longevity risk (the risk of outliving your money), inflation risk, market risk, sequence risk and others—but RIIA has helped raise awareness of them. "There are only four ways of dealing with risk," Gadenne likes to say. "You can diversify it away, pool it, hedge it or reserve against it."

This'll floor you

The two concepts—the "silos" and the "flooring"—are linked. RIIA's philosophy is that the path to retirement income security leads through numerous combinations of products and advice channels on the opportunity matrix. Flooring can consist of bonds, bond ladders, income annuities, variable or fixed annuities with living benefits; upside exposure can come from any risky asset. The methodology embraces almost the entire universe. That explains the RIIA big-tent membership philoso

Institutional Members, Retirement Income Industry Association	
American Century Investments	McElroy, Deutsch, Mulvaney & Carpenter, LLP
Ameritas Life Insurance Corp.	Milliman
Asset Dedication, LLC	MLC/NAB
Bank of America Merrill Lynch	Nationwide Financial
BlackRock	New York Life Insurance Co.
BNY Mellon Asset Management	NGAM Advisors, L.P.
CANNEX Financial Exchanges Ltd.	OneAmerica, American United Life Insurance Co.
Challenger Ltd.	OppenheimerFunds
Direct Finance Corp.	Pacific Life Insurance Co.
Ernst & Young	Prudential Retirement
Franklin Templeton	PwC
GDC Research	The Caldwell Partners International
Groom Law Group	TIAA-CREF
Investors Capital Holdings	Wealth2K Inc.
MassMutual	Wells Fargo & Co.
Source: riia-usa.org, September 1, 2015.	

The open architecture idea gave RIIA no natural constituency, however. In RIIA's first three years, Gadenne and his Boston-based team reached out to the 401(k) industry to secure their membership base. When that industry retrenched after the financial crisis, RIIA received support from the life insurance companies. Over the past few years, RIIA has found an audience among independent advisors, to whom it offers a philosophy, a planning process, and one-week "boot camps" leading to an exam and a Retirement Management Analyst designation. Last June, *The Wall Street Journal* endorsed the RMA as one of the three best retirement designations in the U.S.

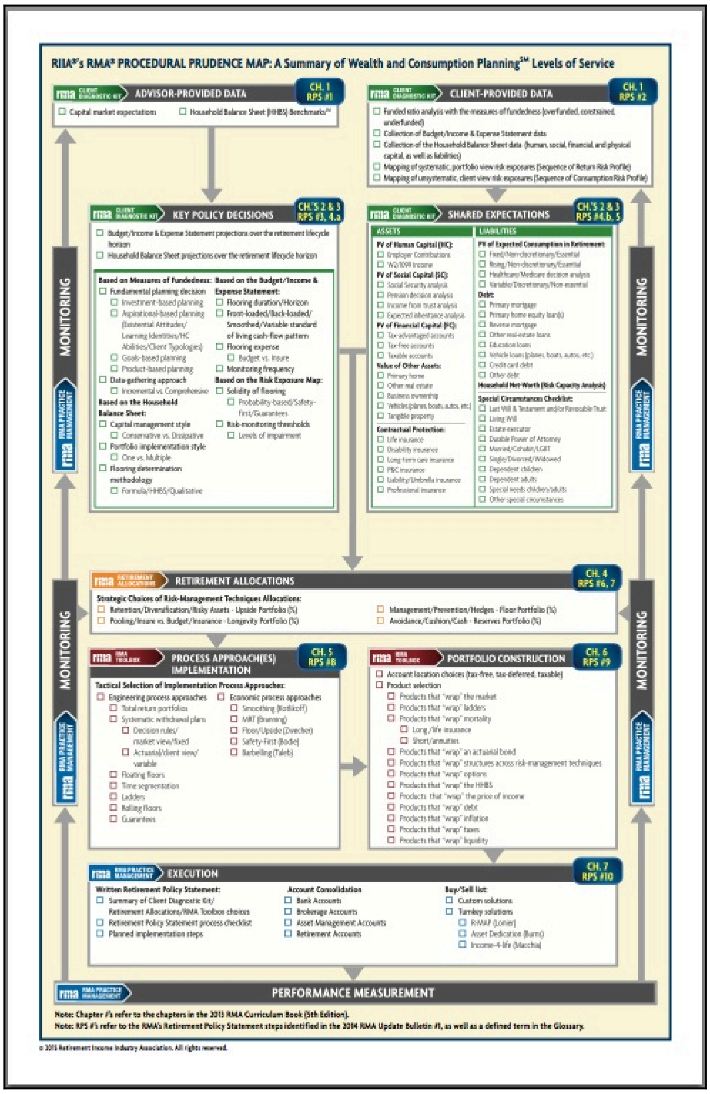
A journalist recently asked Gadenne if he thought the training for the other two designations (from The American College and the CFA Institute) was necessarily wrong. "The others weren't wrong, we said. They're incomplete. One measure of their incompleteness is that they only use asset allocation for risk management in retirement," Gadenne said.

"The RMA uses all four risk management techniques. They don't use risk management or risk avoidance. And, from what I know, they have no process. All the other offerings are toolboxes. With the RMA, you have a procedural flow chart and a framework. Having a framework is more than just having a laundry list."

Client-centricity

The RIIA message defies conventional wisdom about retirement planning. Traditional retirement investing has been similar to accumulation investing, but with a shift toward bonds. Where most retirement planning still relies on probabilities about market performance, longevity and inflation, RIIA's method aims to achieve outcomes with a degree of certainty.

Where mainstream retirement planning still focuses on investable assets and the products they buy—Gadenne calls this the "market view"—the RIIA method considers all of the assets and liabilities on each household's "balance sheet." That includes home equity, human capital (education and earning power), insurance, social capital (e.g., Social Security and Medicare) and debt.



RIIA may also be the only financial trade group that takes the client's point of view. It's eclectic because there are lots of methods for generating retirement income, and because most retirees will eventually use several of them, at different times or in various combinations. In the brave new defined-contribution, serial-employment world, more Americans and advisors need to know this stuff.

The client whose eyes RIIA first looked through was Gadenne. Ten years ago, while still in his 40s, he found himself in a position to retire. Having just been a purveyor of retirement services, he became an unusually well informed, motivated, inquisitive high-net-worth consumer of them.

That helps explain RIIA's counter-intuitive character. "I am patient zero," he told *RIJ* recently. "The view of the client is the view across the silos. It's the same idea, except that one is expressed in industry view. As a client, I'm not interested in your silos. I'm interested in my household balance sheet. The client wants to buy a whole planning pizza and [financial services] companies want to sell him slices."

French connection

Gadenne, who is 59, grew up in Lille, a small French industrial city near the Belgium border. His father was a notions wholesaler. Across a narrow street, his family's home faced the wall of a factory that brewed Coq Hardi lager. Educated through high school by Jesuits, he received a business degree from the Ecole Superieure de Commerce de Paris. America beckoned; he took the GMAT and got an MBA at Northwestern's Kellogg School of Management in Evanston, Ill.

Stints at Abbott Laboratories and Arthur D. Little consulting followed, but it was during his 10-year employment at the Bank of Boston that he became involved in three major components of the retirement business: mutual fund manufacturing, fund distribution, and the new field of technology-driven, web-mediated advice. He led a team that developed the "Wizard," a client-server application for selling funds and servicing clients.

This being the mid-1990s, he left big business and became an entrepreneur. In 1996, he and his partners created Rational Investors, Inc. and **patented** a technology that would allow 401(k) participants to create their own risk-based investment portfolios on the Internet—something akin to Financial Engines, which now dominates the market for automated 401(k) advice.

Dot-com tycoon

Gadenne, as president and CEO of Rational Investors, became a wealthy man when, at the peak of the dot-com boom in 1999, he and his partners sold the company to Standard & Poor's. S&P used the technology to drive its "401(k) Advisor," a vehicle for putting S&P's vast database to work in the burgeoning defined contribution industry. At 45, Gadenne suddenly faced the challenge of managing a big chunk of money over a period of four or five decades.

The path from there to RIIA was somewhat accidental. In 2004, Gadenne and partners, under the name Retirement Engineering, Inc., applied for a patent on a process for enabling 401(k) participants to build a pension—that is, create a defined benefit plan inside a defined contribution plan—that they could take as a lump sum or as an annuity when they retired. (A similar concept was the basis for the unsuccessful MetLife/BlackRock “SponsorMatch” program of the mid-2000s, and it underlies the Treasury Department’s QLAC deferred income annuity regulation.)

During this pre-crisis, repressed interest rate period after the dot-com bust, Gadenne shopped his firm’s “DB in DC” technology to major asset managers. He peddled the notions that “retirement” was a discrete new business opportunity and that retirement planning was distinct from and unlike pre-retirement “accumulation” investing. He exchanged ideas with academics and authors such as Bodie, of Boston University and Moshe Milevsky of York University in Toronto. At Bodie’s urging, Gadenne became a part-time faculty member at the BU Questrom School of Business.

A trade group is born

While guest-speaking at industry conferences, Gadenne realized that no trade association yet existed that could distill intellectual and financial support for these ideas, codify and communicate them, and achieve a self-perpetuating critical mass. None of the existing trade groups bridged the cultural, informational and regulatory boundaries that divided the insurers and asset managers, the manufacturers and distributors, the brokers and planners, or the corporations and the entrepreneurs.

In 2005, the Institute for International Research, the organizer of the conferences where Gadenne spoke, suggested that he lead a retirement conference. “They said, ‘Would you like to be the chairman?’ I said, ‘Yes, but it will be done in the name of the Retirement Income Industry Association,’ ” he told *RIJ*. “We held the first RIIA conference at the Lafayette Hotel in Boston. The trigger was that IIR asked me to do a conference. During that conference, the ‘View Across the Silos’ emerged.” To eliminate conflicts of interest, Gadenne said, he put his patent-based business interests into a blind trust.

RIIA started with 28 institutional members, many of whom still support the association. (See list of current institutional members below.) Its website lists 1,138 individual members, including employees of institutional members, executives of other companies in the retirement industry, industry vendors and consultants, several dozen financial advisors who have achieved the RMA designation, and others.

As the retirement industry has convulsed over the past decade, RIIA's base has evolved. As mentioned above, DC plan providers, then annuity manufacturers and then distributors have emerged as RIIA's primary constituency. The writings of retirement researcher Wade Pfau, Ph.D., helped attract advisors to RIIA when he was aligned with the organization; he is now a professor at The American College. Indianapolis-based OneAmerica, whose affiliated agents and advisors sell American United Life Insurance products, is the primary sponsor of RIIA's fall conference in that city.

To keep in touch with its members, to spread the RIIA message and to burnish its own thought-leadership credentials, RIIA has published a seasonal academic journal, the *Retirement Management Journal*, since 2012. Robert Powell, who writes the Retirement Weekly column at Marketwatch.com, edits the *RMJ* as well as a periodic supplement, *Between the Issues*, for RIIA. Issues of the *RMJ*, as well as the textbook for the RMA designation, are available on **Amazon**.

The future

Asked about the future of RIIA and of the retirement industry, Gadenne said, "My crystal ball is as bad as the next guy's." As for the industry's future, "Two things are likely to become bigger stories. How big, I don't know," he said. The first was the growth of what he calls the "client-centric view" and the weakening of the "market-centric view" in retirement planning. "This notion of product allocation is a market point of view. "By market-centric I mean financial market-centric. This notion of product allocation, for instance, is a market point of view. '60-30-10' is a market-centric view. The client-centric view is to look at the entire household balance sheet."

The other major phenomenon, he predicted, will be the growth of robo-advice technology as tools for advisors more than for consumers. "The algorithm alone can do input, processing and output. And we can argue about whether or not it functions well enough to handle exceptions. But you need to sell me first. Something has to happen upstream of the tool. That the robos can do retirement planning, I have no doubt. But they will leverage something that involves interaction with a human."

As for RIIA's future, he's excited about getting more advisors to use RIIA's new RMA "**Procedural Prudence Map**" (at left above; click on graphic) which offers retirement advisors a checklist that can guide their work with clients. He hopes to raise awareness of PwC's (PricewaterhouseCoopers) Retirement Income Model (RIM), which uses agent-based predictive modeling to help advisors customize plans for individual clients.

“I don’t have specific goals for increasing the membership, or increasing the number of RMAs,” Gadenne told *RIJ*. “The most important goal is to find something that moves the needle and that works to the good. ‘Tell me your clients are better off because of what you’ve learned as an RMA.’ We could get lifted by a big wave; or only a small number of people may become interested in it. Our measure of success is, ‘Are we doing good?’ I’m hoping we will.”