

# Finding the New Normal

The financial crisis has eroded trust and may alter retirement planning, but forces of change already were under way prior to the meltdown.

by Ron Panko

**F**rancois Gadenne is co-founder, chairman and executive director of the Retirement Income Industry Association, a not-for-profit financial services think tank launched in February 2006. RIIA consists of about 100 member institutions and 500 individuals that are players in the retirement planning industry—banks,

insurers, mutual fund companies, plan sponsors, brokerage houses, financial advisers and research and consulting firms. From the outset, the association has sought to examine issues “across the silos” to help forge new strategies in retirement-income planning. Gadenne recently discussed the future of retirement planning issues with *Best's Review*.

**What do you see as the “new normal” in retirement planning due to the financial crisis and market meltdown of 2008-09?**

The new normal would have happened with or without the meltdown because the driver is demographics. The client base shifted from being centered primarily on investment themes and accumulation to a focus on a retirement theme and income. The 76 million or so baby boomers pretty much shift the center of the gravity of the entire country. We've seen a series of such shifts in the country's business life ever since they came up.

**But this is something the financial services industry could see**

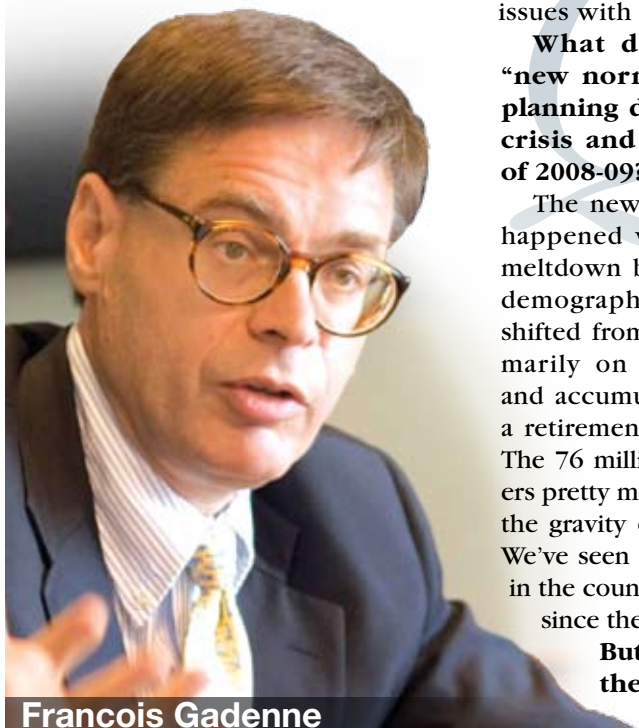
## What Is the RIIA?

The nonprofit Retirement Income Industry Association ([www.riia-usa.org](http://www.riia-usa.org)) was founded in 2006 by financial services companies, advisers and academics to define the future of retirement. Its mission is to share information, strategies, education and research in an unbiased forum. Members include banks, insurers, mutual fund companies, brokerage houses, financial advisers and distributors, plan sponsors, researchers, technology companies, marketing firms, academics and industry media. The RIIA is based in Boston.

**coming, or should have seen.**

Plenty of people have certainly seen it. But when your business runs a certain way, it may not be very easy to change, even though you can see why it may change. Remember also, such changes are gradual. Every year, things may be a little harder, but you squeeze a little bit, you try a little harder. A 20% change in your cost structure won't kill you, but a tenfold change will kill you. So what you see is a very gradual but unrelenting demographics change.

A major difference is that, if I wanted to give financial advice, I didn't have to care too deeply about who the customer was. What I needed to get was his assets, because



**Francois Gadenne**

my business was about collecting assets under management.

Today, I need to worry not only about collecting the assets, but also paying the customer regularly. I need to care deeply enough to know about the customer's human capital (can he still work?), his social capital (does he have Social Security, a defined benefit plan, children that can support him?), and his financial capital. All of a sudden, I have to learn a whole lot about the customer.

The other big change is that my No. 1 mission is to first create an income floor and then expose the customer to the upside with whatever is left. And that is major.

**If advisers shift to drawing down client assets, does that mean they have to accept lower incomes?**

Maybe not. I think what it means is we are in the middle of a phase transition, like water to vapor or water to ice. Those adapted to living in one state may have difficulty living in the

new state as we transition from one to another. The old ways of making money won't go away, but they may not be the only ways or the better ways. It's this process of discovery that we're in the middle of.

**How will advisers make money to compensate for lower assets under management?**

Remember, since now we're focusing on your human capital, social capital and financial capital, there may be ways to earn money or provide services other than just allocating financial assets. And, therefore, if all I look at are the old ways of making money, I'm not going to feel very good. But if I consider what the change is about, I may find things that don't exist yet. There may be things having to do with human capital that can create revenue, or with social capital. It may be more of a fee nature than a commission nature.

**How are the different kinds of RIAA members adapting?**

In our three-year time frame, what we saw was everybody from the product manufacturers to the process people trying to put new labels on old wine. It's logical. It wouldn't make sense to not try that first. They'd say, "Maybe it's just a marketing problem, and all I have to do is put a new label on old wine, and I continue to do what I do, and voila!" If you succeed doing that, you're brilliant. In this case, the transition is too big for that. So almost everybody who has put new labels on old wine has found it to be unsatisfactory.

A good example is that the mutual fund industry created payout funds and target-date funds. Those haven't met the expectations of all in the process. Remember, the old way was: I'm selling you hope. The new way is: I need to make a reliable monthly payment.

**But the annuity writers created indexed annuities and guaranteed withdrawals for life.**

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The living benefits haven't met expectations for many of the writers. Oddly enough, they weren't charging enough. It was only a matter of time before they blew up. That was an example of a new label on old wine, with results disappointing for all. But that's not a criticism; it was eminently logical. That was the first generation, and we've seen quite a few companies terminate their retirement income efforts, stop the funding of them, drop out of them, do a variety of things.

What's happening now is far more interesting. You start to see the new generation of products and processes. Your audience would be very well-served to familiarize themselves with a book by Clayton Christensen called *The Innovator's Dilemma*. It's a key piece of academic work done at around the time of the dot-com boom on the management of change, on how new competition emerges, how existing and successful players tend to corner themselves by serving the better clients and leaving a vacuum at the bottom of marginal clients not served well by existing products. This allows new entrants to come in and take the market away.

A lot of established players tried new labels on old wine. Some of them got burned and walked away.

Some of them are still doing it. What we're starting to see now is a second generation of players coming in underneath in very much the spirit of the innovator's dilemma. And they're starting to fill in the vacuum with new offerings. I'm not going to reveal names, but they will become obvious as you look at who supports the RIIA and who makes presentations at the conferences.

**How far along are manufacturers and distributors in making the transition from an accumulation business model to a payment business model?**

Not very far. As in a personal psychological crisis, you crash, you spend a year at the bottom, and then you spend another year getting back to where you were. Whenever you do something that doesn't work in business, if you're in the wrong direction, it's going to cost you a minimum of three years. None of this happens quickly. In terms of the new direction, RIIA is coming up with a curriculum to focus on human capital, social capital, financial capital and building a floor. This is all new to a lot of people.

**In what ways does the RIIA help its members identify and solve retirement-income issues?**

It goes to our history. Our members came from all of the traditional

organizations, and I was a serial entrepreneur. They asked if I could start a group that would function as a Switzerland, in which all points of view could be represented. We're not a lobbying organization, but a not-for-profit think tank. There are no sacred cows here. All points of view are equally respected. We provide players in the industry with the view across the silos that you can't get from a traditional lobbying product focus.

**How do you expect adaptation by product manufacturers and distributors to play out in coming years?**

With lots of failures. But that's necessary. I'm an entrepreneur; I'm used to failure. What people don't understand is that for success to happen, the cost of failure must be low. If you succeeded in everything you did, you'd be a boring person. Most of us fail. My anticipation is that one thing of value that RIIA has for members is that we keep track of our failures so people don't have to repeat them. We make people think and do things they otherwise would not do first. The RIIA lowers the cost of failure by limiting it to the membership fee. So my expectation is there will be lots of failures, and that will actually be good. And then there will be a few spectacular runaway successes. **BR**