What is this Curriculum and Why Does it Matter to your Advisory Practice?

This curriculum matters because retirement management is not “same-old-same-old” investment management, “better asset allocation”, “new labels on old wine” or “talking-the-talk but not walking-the-walk”. Retirement management is a set of fundamental disruptions from our traditional understanding of investment management.

This book is not the book of a single voice announcing change, disruption and innovation. It is a book of many voices that are not only announcing what is coming but that are also living it, and earning a living from it, on a daily basis. This book expresses a collective voice, the voice of RIIA members, RMJ authors, RMA students and graduates, RMA certificate holders in good standing and most importantly, the clients.

The Three Disruptions: Why Are We Here?

We are here because something important to our business has changed and we cannot find an adequate understanding of this change in the traditional places because their role is to lobby in favor of an established point of view anchored in the past. This curriculum, updated annually, documents the fundamental disruptions that cause these changes, documents the known adaptations to these changes and organizes validated solutions in a practical framework based on the unique perspective of RIIA’s “View Across the Silos.”

The top three disruptions include:

- **The First Disruption**: Clients are the bedrock of an industry. The risk profiles of investment clients are well documented. The risk profiles of retirement clients are documented in this curriculum. They include the risk profiles of investment clients but they also include new risks. In particular, the risk profiles of retirement clients include a category of un-systematic, client-specific “chance” risks (e.g. longevity, healthcare costs, household shocks) that cannot be diversified away in the capital markets. The credit for this insightful reordering of our initial retirement risk factors, in two categories (systematic and un-systematic), goes to Dr. Doug Short. These additional risks mean that retirement management cannot be a “single cylinder” risk-management engine based on “risk retention”/diversification/asset allocation. This means that retirement management, as shown in this curriculum, must become a 4- or even a 5-cylinder risk-management engine that includes risk management.
“retention”, “pooling”, “management”, “avoidance” and, as added to the list most recently, “barbelling”.

- **The Second Disruption:** Business models are foundational building blocks for an industry. Successful business models are anchored in the bedrock of the clients’ needs, wants and behaviors. The business model of retirement management is different from the business model of investment management. The business model of investment management is “gathering assets under management (AUMs).” The business model of retirement management is “paying a monthly check.” This difference is fundamental and ripples through the value-chain of the financial industry, causing a cascade of other disruptions that makes it impossible to “do” retirement management as a small adaptation to investment management. Retirement management is not a 20% change to the business model of investment management, it is a 10x change to the business model of investment management. Incremental thinking and adaptations will not “move the needle” sufficiently.

- **The Third Disruption:** Traditional investment management is a special case of the larger financial framework that has been developed and formalized since the 1950s. The larger framework considers both wealth and consumption from wealth. Traditional investment management focuses on growing wealth. Retirement management as a “monthly check” re-introduces minimum consumption in the financial equation and explores its consequences, starting with the impact that it has on our primary advisory goal for the client. This means that retirement management looks at both consumption and wealth and therefore that there are at least two possible and fundamental views of the topic: one view starts from consumption, the other view starts from wealth. One view seeks to set and protect a consumption level, the other seeks to grow and put wealth to work.

As you will see later in this book, these two views represent active and debating cultures within RIIA. Because the fundamental equation now includes both consumption and wealth, the locus of attention for retirement management (consumption and wealth) is similar and yet different from the locus of attention for investment management (wealth). The goal of investment management is to expose the client’s wealth to upside potential subject to a risk profile. The goal of retirement management is “First build a (minimum consumption) floor, then expose (to wealth growing) upside.”

This basic idea can also be expressed in many other ways. This optionality of expressions reflects RIIA’s caution about universally prescriptive statements in this field. Optional expressions of “First build a floor, then expose to upside” include:

- “Build a floor and expose to upside”
- “If able, build a floor then expose to upside”
- “First insure, then invest”
- “Insure and invest”
- “Cushions before optimization”
The Place of Flooring in the Conceptual Hierarchy: Where Are We?

The idea of flooring started with the traditional approach to upside investing with equities. It was conceived as a process to develop a gradual way to migrate an optimized investment portfolio to a combined retirement consumption and an upside portfolio. RIIA called this approach to flooring “investment-based flooring” because it provides recommendations for allocations between upside, flooring, longevity and a reserves portfolio based on the client’s age, life expectancy, risk profile and capital market expectations. Given specific values for these parameters, investment-based flooring shows that the smoothest transition from a traditional investment portfolio to a retirement portfolio takes place when the calculated flooring allocation for securing retirement income is closest to the fixed income allocation in the traditional, optimized investment portfolio. This is why it can be summarized that investment-based flooring makes the recommendation that the 30% in bonds become incrementally liability-matched. This is true within a window framed by the specific data elements of the client. Outside that window, the flooring allocation may be smaller or greater than the bond allocation. Clients whose flooring allocation requirements are greater than the initial bond allocation become increasingly “Constrained” and some may even be “Under-Funded” as you will see later in the book when we discuss RIIA’s household client market segmentation.

The diverging opinions about the value of flooring in practice may derive from the range of opinions – that cannot be proven a priori – about a practitioner’s (or a client’s) view of the primacy of the probability of failure vs. the magnitude of failure. Some believe that the probability of failure looms greater in people's minds than the magnitude of failure. Others believe that consequences always trump the odds. There is no way to tell, a-priori, who is right and who is wrong for a specific set of circumstances whose resolution and outcomes are yet ahead of us.

Some observe that most – if not all – clients cannot tolerate full longevity flooring because it is too expensive. This is particularly true if one were building such a floor from financial capital only and in the current Zero Interest Rate Policy (ZIRP) environment. The implication is that flooring should be ignored for pragmatic reasons and advisors should keep their focus on upside investing with risk mitigation practices such as Harold Evensky’s “rolling” or “floating” floor as summarized in Chapter 5 of this curriculum (customized total return portfolios).

However, when social capital sources of income become unreliable and financial capital sources of income become too expensive, the solution set can only turn to sources that derive from human capital: Work longer, save more, delay retirement and, of course, looking at the liabilities side of the balance sheet, lower lifestyle by cutting expenses and liabilities.

All of these ideas are good and correct when applied to the right clients in the right situations. This book is a map to their application across the full household client segmentation matrix. These divergences are a feature and not a bug in this curriculum because RIIA seeks to document as complete a range of solutions and adaptations as
possible to the problems faced by our many and different clients.

RIIA’s consensus at the time of this writing is that, indeed, a “zero-risk” consumption floor is impractical for many reasons. However, all of us, rich or not, will have to find a way to generate a minimum consumption floor in retirement. Some will only be able to rely on their human and social capital. Others may also be able to rely on their financial capital. Some floors from financial capital will be fragile to the variances of the mix of risks that apply, so uniquely, to each one of us. In some cases, our efforts to make specific parts of such floors less fragile to the variance of the matching risks may be prohibitively expensive.

All recognize that naked exposure to retirement risks, including sequence of returns risk, will have great negative impacts on some, but not necessarily all, retirees’ actual life experience. Something needs to be done about it and the solution is not likely to be found doing “same-old, same-old” investing.

Human capital adaptations – departures from past trends – to expensive consumption flooring can already be seen in the employment data, suggesting that more people are working longer than before and certainly longer than expected for many. Social capital adaptations can be seen in the reported increase of multi-generational households (grown children living with their parents or the elderly moving in with their children) as well as in the Social Security, Medicare/Medicaid elections advisory work performed by some RIIA members who use the Household Balance Sheet ViewsSM as a map. As we look at the household balance sheet, we see that clients can not only make adaptations to their three major sources of capital (human, social and financial) but also to their liabilities. Finally, financial capital adaptations may be seen with advisors who are moving from a primary focus on upside portfolio optimization to developing individualized trade-off points that take the following in consideration:

- The variance of total return solutions (sequence of returns problem)
- The variance of behavioral risks that cannot be diversified in the markets
- The expense of mitigating these variances for the consumption floor

Again, the consensus position is that there is no universally prescriptive solution about floors, upside and risks. There are many combinations of client exposures to risks and to their related moments. There are many available process and product solutions on the table. There may be many more solutions yet to be discovered. Advisors need to understand their client households, the range of risks/moments they face, the trade-offs that can be achieved, the valid solutions that they can access and then match them all with one another to the best of their abilities.

The distinctive value of using “First build a floor, then expose to upside” as an easily memorized goal is not to imply zero-risk or risk-free exposures for retirees. Instead, its value is to help us extend our view from a traditional “upside” focus on concave client exposures (seeking an expected return with long exposures to risky assets whose
un-systematic risk can be reduced by diversification in the capital markets) to this upcoming and rapidly developing “flooring” focus on creating more convex client exposures to the wider range of risks that affect retiring and retired households. The old adage, “It is the variance that kills you” is doubly, or perhaps more accurately, “compoundedly,” true for retirement portfolios.

This book, updated annually, is the record of RIIA’s collective efforts at understanding, documenting and validating this new and rapidly growing world of retirement management. As you will see, the curriculum seeks to create a space and a conceptual structure where all voices that are valid and respectful of one another can be heard and presented in an organized way. The pressure to improve the collective game increases daily. Every day and for as many as 17 more years ahead, 10,000 Baby Boomer reach the traditional retirement age of 65. The book is intended as a repository of RIIA’s collective knowledge and insights to benefit retiring households, clients, advisors and the companies that support them.

The History of RIIA’s Body of Knowledge and the RMA Designation: How Did We Get There?

This book is built on a conceptual hierarchy – a structure that helps us organize our thinking and find a recognizable and explainable place in it for new and valid ideas – that is reflected in the organization of its chapters. Think of the conceptual hierarchy as a Christmas tree on which we can attach ornaments in a practical and recognizable way. You can read about the organization of the chapters in the next section, “The One-Minute Summary of the Book.” Before you go there, and in order to help you place the organization of the book in context, it is helpful to understand the developmental history of the curriculum.

Curriculum development started before the 2006 foundation of RIIA. It was based on work that Ben Williams and François Gadenne developed as co-founders of both Rational Investors, Inc. (1996/1999) and Retirement Engineering, Inc. (started 2001). Dr. Zvi Bodie was an influential advisor with both start-up companies.

As shown in the chart on the next page, the first step in curriculum development (2007) was the development of the Retirement Management Professional (RMP) job description with the help of several head-hunter members in general and George Wilbanks (then at Russell Reynolds) in particular.

When Dr. Moshe Milevsky and Gil Weinreich (editor of Research Magazine) asked François Gadenne to write a column from 2008 to 2010, at the same time that RIIA’s Education Committee was formalizing the Retirement Management Professional job description and the matching structure for the Retirement Management and Retirement Income Body of Knowledge, each column became an opportunity to document and to test publicly some of the key ideas.

When Nationwide (2008-2009) decided to embrace the Body of Knowledge for a Customized Institutional Program (CIP), the columns became the seed that turned into
Version 1.0 of this book.

When Dr. Michael Zwecher and François Gadenne collaborated in 2010 to launch the RMA designation, both Version 2.0 of this RMA curriculum and Dr. Zwecher’s “Retirement Portfolios” book were written and edited in parallel, sharing material back and forth including moving all the “cases” into the book.

You will see that this 5th edition brings cases back into this book and presents them in two forms: Short Form Cases and Long Form Cases. Short Form Cases start with the consumption from financial wealth idea, use a minimum number of variables and progressively relax constraints and assumptions to include consumption from social capital, the option of longevity insurance and specific assumptions about risk aversion.

Short Form Cases bridge to the Long Form Cases by way of a detailed Fact Finder and Case Evaluation Template. Simplifying assumptions are now expanded with the messy and complex reality of real life examples. Long Form Cases also use the quantitative benchmarking data from the Household Balance Sheet Views^SM research project that was created in 2012 by RIIA’s Research Business Unit and under the guidance of the RMI (RIIA’s Market Insight) Governance Board.

One of the lessons from comparing the Short Form Cases to the Long Form Cases is that advisors do learn from the concepts in this book by finding ways to apply them, not only quantitatively and precisely through sophisticated models, but also qualitatively and accurately with respect to specific situations. Equations must be precise but life rewards accuracy.

Back in 2010, the implementation of “First build a floor, then expose to upside” was primarily focused on the idea of “investment-based flooring,” a gradual approach that builds upon our traditional understanding of investment management. Investment-based flooring starts with the traditional 60/30/10 portfolio. RIIA’s attention was still focused on the wealth side of the fundamental equation.

In 2011, because of the leadership and sponsorship of Allianz Global Investors and the inspired involvement of Bruce Wolfe, then Managing Director, RIIA launched the
Retirement Management Journal (RMJ) under Robert Powell’s direction as editor and publisher. The RMJ documents the leading-edge thinking in retirement income and retirement management. It also grants a Practitioner Thought Leadership Award during RIIA’s Spring Conference and an Academic Thought Leadership Award during RIIA’s Fall Conference. Finally, the best papers often become required readings as appendices in this curriculum book.

In 2011, the Depository Trust & Clearing Corporation (DTCC), under the leadership of Adam Bryan, completed the development of a multi-year project that is at the core of RIIA’s Market Insight (RMI) research program. This project tracks online and in real-time “who sells what retirement product and to whom” using the CUSIPs in the DTCC transaction settlement flow, starting with the insurance industry 5,000+ CUSIPs. Elvin Turner, director of the RIIA’s research business unit, assembled a collective of the best research companies around this capability, including PwC (Anand Rao, Louis Lombardi), E&Y (Gerry Murtaugh, Chris Raham), SBI (Larry Cohen), Cannex (Lowell Aronoff and Gary Baker), Greenwald and Associates (Matt Greenwald), Brightwork Partners (Ron Bush), Sagence (Joy Masterson) and many others. Over time, key RMI deliverables find their way into the RMA curriculum. For instance, this 5th edition brings the application of RIIA’s Household Balance Sheet ViewsSM and RIIA’s Household Balance Sheet BenchmarksSM into the curriculum.

In the 4th edition (2012), with the decisive help of Dr. Michael Finke and Dr. Wade Pfau, RIIA documented the integration of the "goals-based flooring" approach in the curriculum as a distinct practice that becomes very helpful with clients that need to allocate more than 30% of their portfolio towards flooring. The focus of RIIA’s attention shifted to the consumption side of the fundamental equation. Preface Figure B (next page), illustrates the links between the third disruption, investment portfolios, goals-based flooring, investment-based flooring and the retirement portfolios.

One of the core problems of retirement management in the present era is that ZIRP makes flooring prohibitively expensive because interest rates/yields/discount rates are so low. Goals-based flooring helps us find solutions, outside of the traditional 60/30/10 framework, when the client does not have enough savings and/or when the “ZIRP-ed” markets cannot generate sufficient yield in order to maintain a 60% equities allocation. Goals-based flooring helps us expand our focus from simplifying consumption as a percent of financial wealth to expanding our understanding (and complexity) of it, including:

- A view of wealth that includes other sources of capital (human, social, financial)
- Detailed household budgets/income statements
- Working with the household’s budget as well as its assets
- Bringing tax considerations into the planning process
- Including healthcare in the planning process
- Detailed household balance sheet
- Working with the liabilities side of the balance sheet
Retirement-management adaptations to the problem of insufficient assets to provide flooring (Underfunded households) include many creative product and process innovations, including use of the “mortality credit,” inclusion of alternative investments such as leveraged rental real-estate and “floating floors” (as developed by Harold Even-sky and included in the curriculum). These adaptations help ensure that the flooring allocation, away from equities, can be kept to a manageable level.

In September, 2012, Morningstar’s research on “Gamma” – a concept that builds on investment “Alpha” and “Beta” – developed by David Blanchett and Paul Kaplan, revealed the existence of a potential and large number of basis-points “lift” that comes from good process management, defined as a combination of five specific planning techniques. This finding is a timely reinforcement of an observation anchored in the history of RIIA’s membership.

From 2006 to 2009 the leading business silo of RIIA’s “View Across the Silos” association was the mutual funds industry. Its members were looking for an investment product solution to the retirement problem. RIIA discovered that better asset allocation among risky assets was not sufficient as a retirement product holy grail. From 2009 to 2012, the leading business silo became the life companies. Its members were looking for an insurance product solution to the retirement problem. RIIA discovered that ZIRP and the requirement for capital reserves may cause a problematic demand/supply maladjustment. Since 2012, the leading business silos are the distributors, including RIAs, hybrids, B/Ds and banks. They are looking for a process solution to the retirement problem.
As an example of this trend, Tom Marra (Symetra) and Rich Moran (Symetra Investment Services) reached out in 2012 to announce that after an extensive analysis of existing retirement organizations and designations they chose to “support and help grow RIIA.” When pressed as to why, the answer was so good that RIIA now uses it as a standard summary of what the RMA stands for. Their answer was that the RMA would help them grow their business because it was:
- Household centric
- Product agnostic
- Process driven

In this 5th edition, written under the guidance of Dr. Peng Chen – Chair of the RMA Curriculum Advisory Board – our current thinking is that retirement planning may best start with process solutions. Given such process solutions, as described in this curriculum, current investment and insurance products can be used to great mutual benefit between the industry, the advisors and the clients – especially when one considers the entire household balance sheet and realizes it is a map to unexpected and powerful product combinations.

As you will see in this edition, we currently organize retirement risks and risk-management techniques as shown on Preface Figure C (below, right).

In addition, as shown on Preface Figure D (next page), we map the process approaches and product solutions that we have validated using the framework of these risk-management techniques (retention, management, pooling, avoidance and barbelling).

We also organize the solutions and process approaches that we have validated in two categories that reflect the source of their creation – engineering and economic:
- Engineering process approaches (e.g. Zwecher’s Flooring, Evensky’s Floating Floor/Cash Flow Reserves, Income Ladders, Systematic Withdrawal Plans, Time Segmentation, etc.)
- Economic process approaches (e.g. Bodie’s TIPS/Calls
Portfolio, Kotlikoff’s Consumption Smoothing, etc.)

Finally, a third category, empirical flooring allocations, is potentially RIIA’s most important contribution to our community as we may be able to create standards for risk-management technique allocations for key household client market segments, similarly to what happened many years ago in the investment industry with the creation of 60/30/10.

As shown on the chart at left, empirically validated “flooring allocations” are a general method to describe all solutions and process approaches, as you’ll see in Chapters 5 and 7 (sections 5.4.f and 7.1.c in particular).

To paraphrase one of the RMA graduates, somewhere on the continuum between better risky-asset allocations and life-cycle theories, one may find the practical, household-centric solutions. Today, as evidenced with this 5th edition, we continue to explore “what are the key decisions?” and “who owns them?” so that this curriculum thrives as a relevant, innovative and growing body of knowledge that helps you improve your retirement practice and the life-long outcomes of your household clients. In this spirit, the 5th edition introduces a third fundamental planning strategy. In addition to investment-based and goal-based planning, RIIA has also added product-based planning strategies for those clients and circumstances (e.g. Defined Contributions) where the advisors cannot see the entire household balance sheet.

During RIIA’s 2013 Spring Conference where the draft version of this book was released for review by the RMA certificate holders in good standing who took the event’s continuous education class, Tim Murphy, president of Investors Capital, announced during his presentation that he was enrolling 500 advisors on the RMA education program and that he is taking a lead role on the RIIA Board to help other members do the same thing.

In this spirit of continuous improvements and improved outcomes, one of the key improvements in this 5th edition is the continuing formalization of our Retirement
Policy Statement. As you can see, below, with this Household Retirement Policy Statement – and as seems to be true with so many aspects of retirement planning vs. investment planning – it is similar to and yet different from a Client Investment Policy Statement:

- **Retirement policy statement**
  - **Summary of client-provided data**
    - Current status of client household (Overfunded, Constrained, Underfunded)
    - Income statement and balance sheet summaries
    - Mapping of systematic and un-systematic risk exposures, including unique circumstances
  - **Summary of advisor-provided data**
    - Capital market expectations
    - Household Balance Sheet BenchmarksSM and projections
  - **Key policy decisions**
    - Level of data gathering: Incremental or comprehensive
    - Frequency of monitoring: Quarterly, annually, other
    - Sensitivity of risk management thresholds: Low, high
    - Type of financial capital strategy: Dissipative of capital or conservative of capital
    - Type of retirement planning strategy: Investment-based, goals-based, product-based
    - Style of flooring determination: Formula-based, simulation-based, conceptual-based
    - Length of flooring: Life-contingent, period-certain, floating
    - Solidity of flooring: Guaranteed, uncertain
    - Expense of flooring: High, low
    - Flooring implementation: One portfolio, multiple portfolios
  - **Strategic choices of risk-management techniques allocations (flooring allocations)**
    - Retention – Upside portfolio (%)
    - Management – Flooring portfolio (%)
    - Pooling – Longevity portfolio (%)
    - Avoidance – Reserves portfolio (%)
  - **Tactical selection of implementation processes**
    - Engineering process approaches
      - Customized total return portfolios
      - Systematic withdrawal plans
      - Time segmentation
      - Floor/upside
      - Ladders
      - Cash reserves
    - Economic process approaches
      - Consumption smoothing
      - Options
– Risk transfer
– Barbelling

Execution
• Account choices
• Product selection
• Planned implementation steps
• Planned implementation schedule

The retirement policy statement is a good example of the spirit of the RMA: RIIA seeks to document all valid approaches, match them to the relevant client segments and over time with the RIIA Empirical Validation Framework (EVF) highlight the approaches that work best given all existing constraints including client behaviors, market behaviors, costs and regulations.

**What is the Meaning of the RMA Designation?**

RMA candidates who…
- Study at one of the approved university programs
- Pass the RMA examination
- Stay current on their CE requirements

…are expected to have reached a minimum threshold of competence to provide comprehensive, household-focused retirement planning without supervision.

This is only a minimum threshold and the first step in a career-long search for development and expertise that can only come from daily work with household clients. Our clients are our ultimate teachers and graders.

RIIA’s individual and collective competence focuses on ethics; please take note of Section 7.4 of this book, the RMA Code of Ethics and Professional Responsibility, as well as the Manual for Compliance Officers. Trust is earned as a combination of being free of conflicts, demonstrating competence and acting transparently. What RIIA does reflects on you. What you do reflects on RIIA. RIIA works hard to earn, to preserve and to keep your trust. RIIA expects you to work hard to earn, to preserve and to keep your client’s trust.

Upon successful completion of the RMA program, graduates receive the following benefits:
- Free subscription to the *Retirement Management Journal* (PDF version) to keep current on RMA continuing education requirements
- Deeply discounted registration to RIIA conferences
- Discounted full individual membership in RIIA (Note: RIIA membership is not necessary to be an RMA certificate holder in good standing)
- Eligibility to join the Practitioners Peer Review Committee for the *Retirement Management Journal*
Prerequisites or Experience Required to Obtain the RMA

In general, RMA candidates already have demonstrated knowledge and experience in the practical application of basic retirement planning and investment principles. Typically, we look for at least three (3) or more years of experience as a financial advisor working with clients broadly on retirement and non-retirement portfolios, or comparable experience in the financial services industry directly involved in the retirement and investments business. Holding various FINRA registrations, e.g. series 7, 24, 63, 65, or 66, as well as other designations, e.g. CFA, CFP®, etc. will all be considered as evidence of prerequisite knowledge.

Candidates for the RMA designation must:

- Read the following books, and become familiar with the level of detail, that is summarized in the RMA curriculum book:
  - The current edition of the the RMA curriculum book
  - Retirement Portfolios: Theory, Construction and Management, by Dr. Michael Zwecher
  - Retirement Portfolios: Workbook, by Dr. Michael Zwecher
  - Risk Less and Prosper: Your Guide to Safer Investing, by Dr. Zvi Bodie and Rachelle Taqu
  - Control Your Retirement Destiny: Achieving Financial Security Before the Big Transition, by Dana Anspach
  - Antifragile: Things That Gain from Disorder, by Nassim Nicholas Taleb
- Pass a RIIA-approved education program such as:
  - The Retirement Management Program at Boston University's Center for Professional Education
  - Salem State University's 5-day in-class intensive seminar
  - The Intensive Retirement Management Seminar at Texas Tech University
- Complete the RMA application and certify that the information in the application is accurate. Further, candidates must certify that they have not been fined nor sanctioned from practicing in the financial services field by any state or federal government, regulatory authority, by any industry self-regulatory body or by any employer
- Pay the initial RMA certification fee of $395, which includes the annual certification fee, plus the one-time examination fee. Subsequent annual certification fees are just $295, which includes an eSubscription to the Retirement Management Journal (RMJ)
- Sit for and pass the RMA examination

Three Universities Now Support Preparation for the RMA Designation

- The Retirement Management Program at Boston University's Center for Professional Education (BUCPE). The BUCPE program is a 5-week, interactive web-based curriculum offering the flexibility to take the class when and where you
want within the semester dates. The cost is $1,295. Contact BUCPE directly for scheduling and more information or call 1-800-329-4996.

- **Texas Tech University (TTU)** offers a 5-day, in-class customized seminar taught by its Ph.D. faculty that includes lectures and lab assignments. The class is offered in Lubbock, TX on the TTU campus and runs Monday morning through Friday with the course exam on Saturday morning. The cost is $1,975 (includes hotel Sunday - Friday nights). The seminar is scheduled to be offered twice a year (Spring and Fall). For more information, contact Michael Finke, Associate Professor and Director of the Personal Financial Planning Ph.D. program.

- **Salem State University (SSU)** in Salem, Massachusetts offers a 5-day in-class intensive seminar during the summer. This SSU “boot camp” specializes in training clients and advisors who want to become RMA instructors. The cost is $1,575 and includes refreshments and lunch. On campus lodging is available for an additional fee. Contact Andrea Swirka at Salem State University, Professional and Community Enrichment Programs for more information.

All approved education programs must teach to the curriculum to keep their approval which is granted annually. Each program achieves differentiation in the marketplace by adding packaging options, reading materials, access to expert faculty members, access to Teaching Software Platforms, etc., based on the unique strengths of their institutions, staff and program design. As you will see in the material on RIIA’s Distribution Channels Segmentation Matrix, RIIA seeks to match approved education programs to channels so that everyone can find practical and proper access to this material.

**Special Pricing and Customized Programs are Available for RIIA Member Firms**

*This is a powerful, cost-effective way for companies to provide state-of-the-art training for advisors, wholesalers or other key employees.*

RIIA member firms who are interested in training at least 50 employees can obtain discounted pricing on both the required educational program and the RIIA 1st year RMA certification fee. Additionally, RIIA can provide an additional day of exam preparation and an on-site proctored examination for your RMA candidates at no additional cost. Please contact us at either fg@riia-usa.org or staff@riia-usa.org for more details and to design a program that best works for you.
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Glossary

Note: Prior editions included several pages of acknowledgments to RIIA's Board members, Special Advisors, Business Unit Directors, Committee Chairs and Members. One of our graduates told us, “My inventory is my time”.

It is with this comment in mind that we moved these acknowledgements pages, as well as the list of your fellow RMA Graduates in good standing, to the RIIA website under the “Membership” tab so that we can present you with the most complete and up-to-date lists at all times.
Who This Book Is For

Financial professionals, including asset managers, licensed agents and representatives of broker/dealers, registered investment advisors and certified financial advisors (both in the retail and the employer-sponsored plan sectors) can expect this book to help them:

- Organize their thoughts about their clients’ financial situations
- Reach conclusions about their clients’ retirement-income needs
- Recommend appropriate retirement-income plans
- Explain why the plans make sense
- Implement the plans by changing the clients’ allocations to risk-management techniques, thus enabling them to purchase a better mix of products
- Take the examination for RIIA’s RMA designation

This book also contains “RMA-isms” that will be defined as we progress through the chapters, including:

- Overfunded, constrained and underfunded
- Goal-based planning, investment-based planning and product-based planning practices
- Household Balance Sheet ViewSM and Household Balance Sheet BenchmarksSM
- Human capital, social capital, financial capital, liabilities
- Consumption, fixed and discretionary expenses
- Risk exposure mapping of systematic and un-systematic risks
- Risk-management techniques (flooring allocations)
- Engineering and economic process approaches, including floor/upside, custom total return portfolios, SWPs, ladders, time segmentation, etc.)
- Account location choices and product selections (product types include: assets/products that wrap the market, “risk-free” assets, products that wrap the mortality credit, reverse mortgages, leveraged rental real estate, options/derivatives, structured products, etc.)
- Accumulation vs. distribution toolboxes
- Retirement Management Professional (RMP)
- Retirement Management Body of Knowledge
- Retirement Policy Statement
Build a Floor and Create Upside Potential

Most investment professionals specialize in managing client assets, with an eye toward maximizing accumulation during the clients’ working lives. The duties of Retirement Management Professionals, however, are broader. These advisors need to manage their clients’ assets, liabilities and cash flows, with an eye toward minimizing a broad range of risks during their clients’ retirements.

RIIA developed a hub-and-spoke framework to organize retirement-income solutions. The framework has seven chapters – a hub, five spokes and an integrative process. The client is the hub, and the spokes are the steps in a process of integration and monitoring. RIIA calls them “spokes” rather than “steps” for two reasons. First, they represent a cyclical process of interaction with the client that has no specific beginning or end. Secondly, each one strengthens the relationship between advisor and client.

The objective is to build a floor and create upside potential. RIIA assumes that, during retirement, clients need a sufficient level of income (“a floor”) from guaranteed or low-risk sources, as well as the potential for growth through exposure to risky assets (the “upside”).

Building a portfolio for retirement income isn’t necessarily harder than building a portfolio for asset accumulation, but it does require a deeper assessment of the client’s needs. The investment of more time at the beginning of the relationship can pay off, however, in the creation of satisfied clients whose assets will be “stickier” and who will bring additional advisory opportunities.

The Hub and Spoke Model

The Hub at the Center of the Advisory Process – The Client

Intuitively enough, the client stands at the center or “hub” of the process. However, the retirement client segmentation is not based on Assets Under Management (AUMs) only but on a ratio of the client’s annual consumption in retirement to their financial capital.

The primary quantitative objective of Chapter 1/The Hub is to calculate a first-
order estimate of the client’s consumption from financial capital to financial capital ratio. Inputs for this calculation include an estimate of the client’s current financial capital and his or her expected annual consumption level in retirement. Outputs from this calculation categorize the client as underfunded, constrained or overfunded. This first-order estimate will be revised as we move through the spokes. This core level of analysis focuses on averages and can also be refined with an advanced-level analysis including a specific year-by-year simulation.

**Spoke One: The Household Balance Sheet is the Start of the Life-cycle Plan**

Focusing first on the household’s balance sheet, analyze the client’s income statement (current income vs. current expenses), balance sheet (assets vs. liabilities) and cash flow statement (a snapshot of cash inflows and outflows). This is the first step towards creating a life-cycle plan. This can take place before, at or after retirement, but the earlier, the better. It is important to remember the difference between cash flow and income, our goal is to maximize positive cash flow.

The primary quantitative objective of Chapter 2/Spoke One is to calculate a first-order estimate of the client’s household balance sheet. Inputs for this calculation include asset balances (e.g., financial assets and bank balances) as well as expected taxable and non-taxable cash flows. Inputs also include liabilities, such as mortgage balances, expected annual consumption in retirement, desire for a bequest, etc. Finally, inputs for this calculation include discount rates/expected returns. Outputs from this calculation are shown as a household balance sheet with projected and discounted values as of the client’s retirement date.

**Spoke Two: Cash Flows and the Completion of the Life-cycle Profile**

Match the client’s anticipated social capital (e.g., Social Security, pension income), human capital (e.g., income from work in retirement) and financial capital (investments) with his or her income statement, balance sheet and cash flows. The advisor determines the portion of the client’s minimum income or “floor” that social and human capital can provide, and how much will need to come from financial capital. This step completes the creation of life-cycle plan projections.

The primary quantitative objective of Chapter 3/Spoke Two is to refine the cash flow inputs that derive from the client’s household balance sheet. Inputs include personal income/earnings as well as taxes, fixed expenses and discretionary expenses. Outputs are shown on both the client’s household income statement and balance sheet.

**Spoke Three: Retirement Risk Mapping and Flooring Allocations**

Turn the life-cycle plan into a retirement-income plan that matches the income from the client’s three sources of capital to the potential costs associated with the client’s identifiable retirement-income risk factors (e.g., health risk, inflation risk, longevity risk, etc.).

The primary quantitative objectives of Chapter 4/Spoke Three are to determine the client’s
risk exposures (systematic and un-systematic) and to calculate the portion (percent and dollar) of his or her financial portfolio that should be dedicated to flooring. In addition to identifying risks and estimating risk aversion, inputs include the client’s current age, desired retirement age, life expectancy and various inflation and discount factors. Outputs are the client’s portion of his or her financial portfolio that should be dedicated to flooring.

**Spoke Four: Flooring Allocations and the Retirement Policy Statement**

Using the client’s financial capital, create an income floor through the allocation of risk-management techniques that are compatible with the client’s risk profile. Then, with any remaining assets, create an upside. Flooring allocations will guide the choice of process approaches leading to account location choices and product selections.

Chapter 5/Spoke Four customizes validated process approaches (engineering and economic). The primary quantitative objectives of Chapter 5/Spoke Four are to determine the portions of the upside, flooring, longevity and reserve portfolios and to match them with one or more process approaches. Inputs were developed in prior spokes. Outputs are the percent and dollar portions of the flooring allocations and process approach recommendations.

**Spoke Five: Account Location Choices and Product Selections**

Chapter 6/Spoke Five provides a high-level mapping of available accounts and product types for each of the four risk-management techniques. This provides guidance to the financial advisor who – within the constraints of his or her chosen process approaches – can then exercise his or her best professional judgment to implement and manage the flooring and upside portfolios.

**Putting It Together: Presenting and Monitoring the Plan**

The advisor integrates findings and recommendations into a plan that can be easily presented to and understood by the client. This integration brings together the Code of Conduct and the Retirement Policy Statement.