Four Income Planning Tools

By Joel Bruckenstein *Wed, Jan 4, 2012*

Here are brief reviews of four noteworthy but not-widely-known retirement income planning software tools, provided by the publisher of Virtual Office News and the T3 Newsletter. Mr. Bruckenstein is also a CFP.

Building good retirement income software is challenging. The field of retirement income planning itself is still evolving, and the software supporting those efforts is evolving along with it. Numerous approaches to generating a retirement income plan are currently available.

We've profiled a handful of lesser-known yet valuable applications, each designed to create meaningful retirement income planning results with minimal data entry. These thumbnail sketches of the products should serve as a starting point for anyone in the market for a targeted retirement income software solution. (Photo, Joel Bruckenstein.)

Firm: Torrid Technologies

Product: Retirement Savings Planner–Professional Edition

URL: http://www.torrid-tech.com/rp_main_pro.html

If you want something quick, simple to use, and easy for clients to understand, Retirement Savings Planner–Professional Edition, from Torrid Technologies, Inc. is worth a look. It addresses the pre- and post-retirement planning periods.

After you enter the client's assets, liabilities and projected cash flows, an interactive graph illustrates his or her projected income, outflows and potential shortfall, if any, on a yearly basis. As you change assumptions (about rates of return, life expectancies, etc.), the graph immediately reflects the changes. A spreadsheet view provides a more granular depiction of each year's cash flows.

Unfortunately, the planning options of the RSP are limited, as is its methodology. All calculations are on a fixed, straight-line basis. As a result, this tool is probably best suited as a first-line diagnostic tool for mid-market clients as opposed to a planning tool for more sophisticated clients.

Firm: Impact Technologies Group, Inc.

Product: Retirement Road Map

URL: http://www.impact-tech.com/products/retirement-road-map/

According to Impact Technologies Group, Inc., its Retirement Road Map is “a sales system that helps advisors chart retirement courses for baby boomers.” Retirement Road Map is a good example of the “bucket” approach to retirement income planning. Some in the industry believe that clients understand retirement income planning better when the process is broken down into smaller pieces.

Retirement Road Map divides the retirement years into four phases, and creates a separate sub-plan for each phase. Its illustrations also include a pre-retirement phase for those who have not yet retired. The pre-retirement phase allows pre-retirees to make changes to their plan, such as saving more or delaying Social Security benefits, before they retire.

Each retirement phase has a different set of assumptions. For example, in the early phase of retirement, it might be assumed that the clients require 90% of pre-retirement income for monthly expenses. Since the early retirement phase will start in five years, the application might recommend a conservative portfolio (assumed growth rate of 3%) or a very conservative portfolio (2% rate) to preserve capital. For the survivorship portfolio, which begins perhaps 20 or 25 years out, the application might suggest a portfolio that is initially aggressive, but then becomes more conservative over time so that the capital will be available when needed.

As in the Torrid Technologies product, all numbers are computed on a yearly basis and the default calculation uses a straight-line methodology. Retirement Road Map does, however, allow the user to include a “what-if” scenario. For example, you can illustrate the impact on a plan if an illness necessitated spending an additional $5,000 per month for five years, as well as the impact of that spending on the overall plan. You can also illustrate the impact of adding an annuity to the mix.

Firm: OMYEN

Product: Sustainable Retirement Income Planner (SRIP)

URL: https://www.omyen.com/

OMYEN offers a number of innovative products for planners and individuals. The Personal Financial Index (PFI module) is essentially an interactive client questionnaire with some basic calculation capabilities built in. It calculates a score designed to be a single numerical estimate of the client or prospect’s overall financial health, in much the same way that a FICO score is meant to represent a person’s creditworthiness. The SRIP leverages the information collected when compiling the PFI score to arrive at a Retirement Income Schedule.

After the advisor and client enter the necessary data, the tool generates a report. At the top of this report are graphs indicating the portfolio balance drawdown over time, the net income or cash flow withdrawn over time, and a chart showing discretionary, non-discretionary and total expenses over time along with the net income over time.

Below the graphs, the application provides a chart of the expected cash flow on a yearly basis. This chart includes the age of the client(s), estimated distribution; the portfolio(s) from which the withdrawal comes from, the beginning and ending estimated portfolio values, estimated taxes, Required Minimum Distributions and more. All of these calculations assume a constant rate of return and a constant inflation adjusted withdrawal rate throughout retirement, although advisors have the option of running Monte Carlo simulations as well.

The program automatically sets aside money to cover specified legacies. It can also set aside funds to cover longevity risk if the client's health profile indicates a necessity to do so.

Firm: Fiducioso Advisors

Product: Income Discovery

URL: http://www.incomediscovery.com/

According to the folks at Fiducioso Advisors, the "efficient frontier" used by investment professionals isn't suited for retirement income planning because it doesn't adequately deal with the risks that concern retirees.

To better address retirement income planning risks, they developed Income Discovery, a web-based application that addresses the interplay between four factors: Level of sustainable income, plan failure rates, the potential lifespan of a portfolio in a "bad case" scenario, and the portfolio's average terminal value.

Suppose, for example, that the application calculates a 15% chance that a given portfolio will expire before the clients do. That may be unacceptable to the client, who insists on at least a 90% probability of success. With the click of a mouse, the advisor can constrain the scenario to a failure rate of 10% or less.

The program will then recalculate the other factors to arrive at a solution. The revised result might be a lower monthly income, a different asset mix, or a combination of both. The client can immediately see the impact of a change in portfolio failure probability on the other factors. The client and advisor can then work through multiple scenarios and trade-offs to arrive at a solution that is acceptable to the client.

Perhaps the client encounters a conflict between achieving a desired level of income and leaving a certain legacy to heirs. The application can, by modeling the purchase of an immediate annuity with a portion of the portfolio, precisely quantify the trade-off between generating a certain monthly income and leaving a certain legacy. Armed with this information, clients can make more informed decisions about allocating their wealth.

The program can also model tradeoffs between three retirement income strategies: a systematic withdrawal plan from a diversified portfolio of stocks, bonds, and cash; a joint and survivor annuity (the default choice is one that pays 100% of the benefit when both spouses are alive and then pays 75% of the benefit after the death of the first spouse); and a maturity matched portfolio (MMP).

A maturity-matched portfolio works like a bond ladder, with the exception that you don't roll over the principal. With a MMP, the interest (if any) and the principal supply a cash flow for a stated period of time. For example, if you wanted to provide income for each of the next five years, you could buy zero coupon bonds with maturities of 1, 2, 3, 4, and 5 years. At the end of the five years all principal and interest from the portfolio would be depleted.

MMPs help insure against the risk of a bad sequence of returns by ensuring the required cash flow for the desired period of time. Admittedly, MMPs aren't the only way to provide stable cash flows. You could, for example, hold the required funds in cash. With very short-term rates near zero, MMPs may be preferable.

The application's ability to illustrate a portfolio composed partially of MMPs is appealing. Even more appealing is its ability to illustrate the "cost" of extending the MMP period. You can run a scenario that extends the MMP period from three to six years and see the impact of such a change on the asset mix and the cash flow.

As you can see, retirement income software applications can vary widely in their methodologies and still get the job done. Retirement Planning Software and Sustainable Retirement Income Planner, though very different, are both easy to use. Income Discovery's approach is more sophisticated than that of Retirement Road Map, yet both should work equally well with clients. No single product suits the needs of all advisors, but the marketplace offers enough choices to satisfy most buyers.