
It's Reigning Buckets

By Editor Test Wed, Dec 2, 2009

Envestnet's new PlanHorizon income distribution method resembles other 'bucket methods' like IFLM and RetireSense, but also integrates the bucket method into the firm's full-service investment and administrative platform for independent advisors.

Envestnet, a Chicago-based provider of investment and back-office services to independent broker-dealers and financial advisors, now offers advisors a “bucket system” that allows them to generate a consistent retirement income for their clients.

The system, called [PlanHorizon](#), resembles other “time-segmented” bucket programs like IFLM (Income for Life Model) and Nationwide’s RetireSense.

“We’ve had a pilot program running for eight months with Securities America, but we’ve been working on tying all this together for two years,” said Jason Kissinger, vice president for product development at Envestnet. “Our first clients are Securities America and National Financial Partners.”

Software tools like PlanHorizon and IFLM offer a framework that allows advisors to create and customize ladders of asset pools to be harvested for income at specific dates or intervals in the future. Envestnet has integrated the tool into the investment, administrative and reporting platform that it offers independent broker-dealers and advisors.

“We can give daily account values for the assets on the platform. We can aggregate account balances. We allow the advisor to say to the client, ‘Here’s where you are, and here’s where you should be, based on when you will need the income,’” Kissinger said. Some 10,000 advisors worldwide currently have access to Envestnet’s platform.

Viggy Mokkarala, an executive vice president at Envestnet in Sunnyvale, Calif., told RIJ, “The time-segmented distribution or bucket method has been around for a long time. But until now there hasn’t been a natural way to combine it with proposal generation and reporting on one tightly integrated platform. That’s the creative addition.”

Given PlanHorizon’s similarity to IFLM, Envestnet engaged Phil Lubinski, the Denver-based advisor who created IFLM, to help during the beta testing. In an interview, Lubinski described some of the product’s capabilities.

“Once advisors fund the model, all the products can be loaded into their reporting systems and tracked on a daily basis,” he told RIJ. “It can also have ‘alerts’ set up that will tell the advisor if a segment has hit its target early. It will also print annual review reports that currently we have to do manually [with IFLM].

“On the input side,” he added, “if an advisor wants the platform to build separate portfolios for each segment, it will do that and also Monte Carlo-test the probabilities of success. It is very sophisticated. It requires a lot of input, but once the input is done, it is an incredible tool for the advisor to manage the

client's retirement."

If the client wishes, PlanHorizon can accommodate life annuities or annuities with living benefits. The first annuity to be offered with PlanHorizon will be a Nationwide product, Kissinger said. Envestnet has a partnership with Nationwide to distribute two of the insurer's products—Portfolio Innovator, select model portfolios in an insurance wrapper, and Income Architect, a deferred variable annuity with a five percent lifetime payout.

A bucket system like PlanHorizon, IFLM or RetireSense has both practical and psychological appeal. By assigning "Don't Open Until" dates to different pools of client money, and by putting risky assets into pools that won't be tapped for many years, it spares clients the anxiety of paying attention to short-term market volatility.

On the other hand, some advisors are critical of bucket systems, saying that they are just a fancy way of labeling the usual elements—cash, bonds and stocks—in a portfolio. A recent study by Practical Perspectives, a Massachusetts research firm, suggested that bucket systems are already used by many advisors who serve large numbers of older clients.

"Our research shows that almost 60% of advisors-and growing-use some form of bucket or guarantee method for retirement income clients. We believe that this has been accelerated by the downturn and the recognition that advisors must protect income/cash flow from the vagaries of the markets over the short-term," said Howard Schneider, president of Practical Perspectives.

"Followers of the total return approach were hit hard in the downturn and had to cut income/cash flow and clients were not happy," he told RIJ. "That said, there is lots of variation in how advisors apply the bucket approach and we expect that variation to grow."