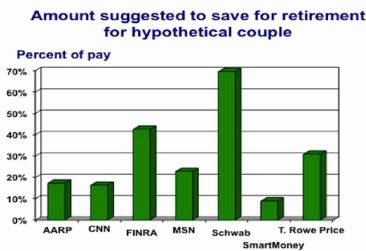# Software, Software Everywhere

By D. Alan Barnett   *Mon, Apr 1, 2013*

Welcome to a series of articles on financial planning software (FPS). This one will sum up the "literature" on the topic. Future stories will focus on tools that are valuable but often overlooked.

Search for "bottled water" on Google and you'll find many brands of thirst-quenching H_2O ranging in price from under $5 to over $400 per 750 ml. Yet, you can often find water that's just as healthy—and much cheaper—running from a tap or bubbling up from a spring.

Planning software programs for advisors are almost as ubiquitous as water and they vary just as much in price. You can find bargains as well as big-ticket software. Fortunately for advisors, market competition is helping drive down prices.

In the past few years, several useful reviews of planning software have been published. These include a 2011 review by David McClure, this publication's own listing of major software available, and reviews of free online retirement calculators by Steve Vernon (CBS Moneywatch) and Kim Morten, an associate of Dana Anspach (editor of Moneyover55.about.com) [1].

McClure claimed that a successful FPS package meets at least four criteria:

- Breadth and depth. The software needs to cover the widest possible range of client circumstances and goals.
- Scenario building. . The software must allow the advisor to create multiple scenarios and present them side-by-side for comparison.
- Presentation capabilities. The software must be able to generate a financial plan and enable the advisor to present that plan in a manner suited to the needs of the client.
- Client communication. The software must help the advisor maintain communications with the client over the life of the plan, via email, mobile communications or a shared web portal.

Annual subscription fees for McClure's favorite packages ranged from $400 to over $6,000, with most between $1000-1300. His review covered *e*Money 360 and *e*Money 360Pro Version 7.0, MasterPlan, NaviPlan Select, PFP Notebook, PFP Relief, Profiles Forecaster, and Profiles Professional.

Some packages, such as PFP, were developed by accounting experts, not financial planners. Some were standalone packages designed for installation on desktop PCs while others relied on web-based processing. The latter allows the client to log on and lets the advisor know when the client logs on and what pages he looks at.

In May 2012, this publication created a kind of "Michelin Guide" of FPS, which listed 27 programs along with a brief description of each. (References are made in footnotes at the end to reviews of individual

programs, including McClure's review. These can be found here: [http://bit.ly/Y2M57O.](http://bit.ly/Y2M57O))

Many of the FPSs cater to brokerage houses and focus more on the accumulation stage rather than the decumulation, *RIJ*'s review said. It noted however that "other, smaller firms that, although less well known, often have stronger retirement income functionality than the dominant brands, which, like most advisors, still tend to be investment- and accumulation-driven."

Among those smaller firms were Asset Dedication, Fiducioso Advisors, Wealth2k (whose Income for Life Model uses a time-segmentation or floor-and-upside tool) and LifeYield (a specialty tool that models tax-efficient drawdown). The likely trend is that as more Boomers head towards retirement, software vendors will pay more attention to the retirement income components of FPSs.

Financial Planning Calculators (FPCs)

In early 2012, Kim Morten tested and reviewed seven online FPCs, including ESPlanner Basic, Vanguard, AARP, T. Rowe Price, Schwab, Fidelity, and CNNMoney. She created a review for for each one, using an outline which describing its main function, target audience, best feature, pros, cons, visual appeal, ease of use and shortcomings.

Her work showed that every calculator was constrained by its own underlying assumptions. Some calculators, she found, allow you to change some of the assumptions, while others do not. Monte Carlo simulation was featured on three of them. All handled pre-retirement clients but only a few accommodated retirees as well. Most of them did not handle taxes well, Morten noted, and none gave advice on a tax-efficient order of withdrawal from various accounts.

In her opinion, ESPlanner, used in "conventional" mode, was the best calculator. Ironically, Boston University economist Lawrence Kotlikoff, the creator of Esplanner.com, has gone to great length explaining why conventional planning is not good.

While ESPlanner allows for a conventional planning mode for purposes of comparison, it favors an approach called "consumption smoothing". Under this approach, a family should use a combination of earned income, investments, debt and insurance to maintain a smooth and steady level of consumption over the entire "lifecycle" of its client.

The full version of ESPlanner (Morten tested only the free online version) takes into account all of the financial variables linked to a household as a unit of consumption, including education, first and second homes, Social Security, and in particular, taxes and tax-advantaged retirement accounts[2].

In August 2012, financial planner Steve Vernon wrote a four part series in which he reported his tests of seven online calculators. Like Morten, he tested free calculators offered by AARP, CNNMoney, Schwab, and T. Rowe Price. He also reviewed calculators provided by FINRA, Microsoft Network (MSN) and the now-defunct *Smart Money* magazine and website. Going a step farther than Morten, Vance challenged each tool to generate a plan for the following hypothetical client:

- A married couple, both age 45
- A $50,000 annual income from each spouse
- A 401(k) account worth $50,000 for each
- A 401(k) savings rate of 9% of pay each (6% deferral with 3% match)

The couple contributes $9,000 to their retirement account each year. Neither expects an employer-sponsored defined benefit pension. Both want to retire at age 65, and they're targeting an income replacement rate in retirement of 85% of final pay.

If not prompted to provide specific information, Vance allowed each calculator to use its default assumptions. He found that the calculators recommended a savings rate for the couple that ranged from a low 9% to a high of almost 70%. His results are summarized in Figure 1 below (chart used with permission).
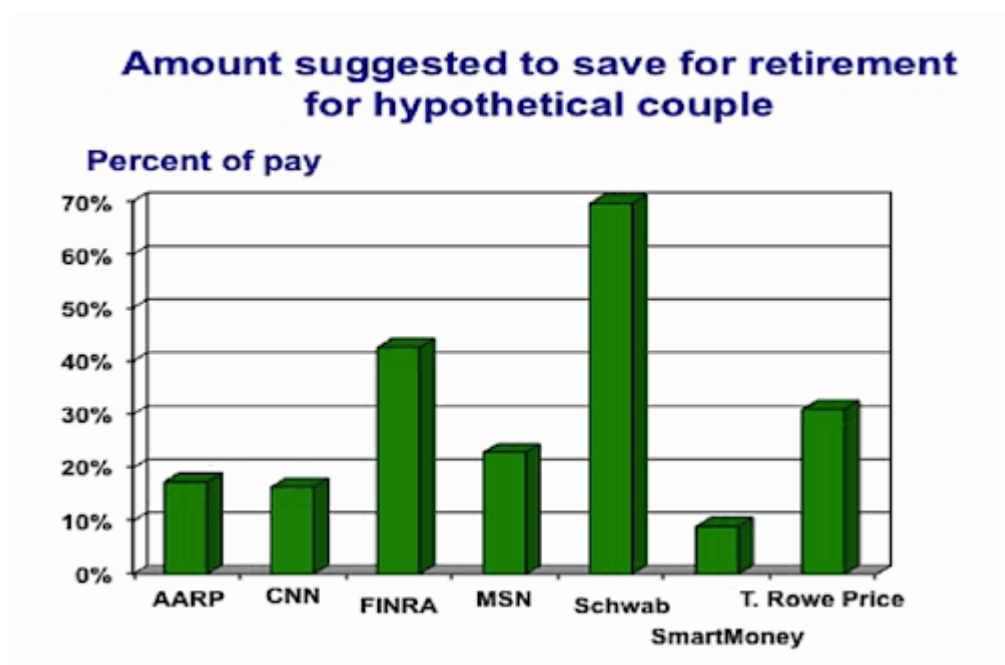
Of the seven calculators Vernon reviewed, he preferred the ones offered by AARP and MSN. He advised anyone who attempts to plan for retirement on their own to use two or three different calculators, to vary their assumptions with each one, to cross-check their results and to repeat their calculations as they get older.

"Every two or three years, revisit your calculations of how much you should be saving and run the numbers again," Vernon wrote. "It's definitely worth the effort to try a few different assumptions to see how they affect the results." He recommended picking answers to the following questions and sticking to them:

- What rate of return do I expect on your retirement savings?
- When do I expect to retire?
- How long do I expect to live?
- How much retirement income will I need?

- What will my Social Security benefits be?

It's interesting to note that Vernon selected his calculators on the basis of what showed up on the first page of search engine. That they were the most popular (or frequently used) doesn't necessarily indicate that they are the best.

Closing thoughts

I have searched the web extensively over the past couple of years for some additional free or low-cost online calculators. Two programs that were good in terms of the features offered and/or the robustness of underlying methodology were Firecalc.com and I-ORP.com.

In addition, Excel-based calculators available for downloading can be found at www.Analyzenow.com and www.retirementoptimizer.com/.[3] Tip$ter (www.prospercuity.com/) and Forecaster (http://www.retirementforecaster.com/default.html) are two downloadable self-executing programs that can be installed onto Windows based PCs. The features of these calculators will be presented in the next article in this series.

Ideally, an objective third-party should test all of the major professional FPSs the same way that Steve Vernon tested the online calculators. Criteria need to be defined, and two or three scenarios need to be created and applied to each FPS (and Excel-based calculators) to determine the best accumulation-stage software, the best decumulation-stage software, and the best overall package (if there is one).

The test results should be clearly presented in graphical form, and each product's features should be tabulated to make comparisons easy. Until someone does that, many FPs will struggle to find the best programs for their clients, and will likely end up sticking with whatever program is most familiar to them.

D. Alan Barnett, a mid-stream Boomer who will shortly launch his second career, by training to become a Retirement Income Counselor.

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[1] Found here : http://www.theprogressiveaccountant.com/reviews/review-financial-planning-software-2011.html)

Vernon, search for his name under: http://www.cbsnews.com/moneywatch/

Morten: http://moneyover55.about.com/od/howmuchtoretire/ig/Retirement-Calculator-Reviews/

See also http://moneyover55.about.com/od/preretirementplanning/a/retirementcalculators.htm

[2] All of these features are found in the full version, which costs $150. She tested the free online calculator.

[3] Analyze now has a free version, and a low-fee version. Retirementoptimizer has an annual fee of $99 whether it is for personal use or used by a FP. I hesitate including ESPlanner in this group as well, because its personal version is slightly more expensive at $150-$199 (including Monte Carlo) while its professional version is $950. Each has an annual update fee of $50.