Sounds Like a Plan

By Kerry Pechter *Wed, Jan 25, 2012*

A directory of 27 software tools accompanies this overview of the rapidly evolving financial planning technology industry.

"Only the dead know Brooklyn," a great novelist once wrote. Thomas Wolfe wasn't referring to zombies; he was just observing that no one alive could possibly know everything there was to know about that teeming, complex and now very hip borough across the East River from Manhattan.

Financial planning software is, in a sense, like Brooklyn. Although it's merely a small borough within the sprawling giga-city of information technology, it's much too large and varied a field for anyone (except possibly Joel Bruckenstein) to grasp in its entirety.

At the same time, it's way too big to ignore. Individual advisors, technology buyers at wealth management firms, and, indeed, almost anybody who wants to compete in the retirement income industry, should know more about what's happening on the planning software front.

For this reason: planning software isn't just about asset allocation and Monte Carlo analysis anymore. In the mass-affluent end of the advice business, where volume will be high and margins low, it's a *sine qua non* of survival.

It's wired directly into the increasingly integrated work flow of the wealth management business, which begins with client portals and lead generation and assessment, then feeds into risk profiling, product selection, and order entry, and ultimately connects to data aggregation, reporting and compliance. The payoff, ideally, will include greater competitiveness, economies of scale, transparency and higher fiduciary standards.

And, for any advisor who wants to capture mature clients and keep them for life, the planning software has to pay much more than lip service to the decumulation stage and guaranteed income. Most of the big planning software players still cater to the brokerage world, however. Boutique companies seems to be where the income action is.

A directory of software vendors

To give *RIJ* subscribers a kind of Michelin Guide to the planning software world, we've created a table listing all of the software that we know about and some relevant information about each. There may be a gap or two, but we intend to refresh this directory regularly.

Our list includes 27 companies, arranged in alphabetical order by name. About a dozen are huge firms that provide comprehensive services to wirehouses, broker-dealers, banks and insurance companies. CGI, FiServ, PIEtech, SunGard, Thomson-Reuters and Zywave (formerly EISI) belong to this club. According to Celent, PIEtech (MoneyGuidePro) has 120 institutional clients and 30,000 users; Zywave has 250,000 users.

Other well-known players that perennially appear in industry surveys include *e*MoneyAdvisor, Morningstar, Advisor Software Inc., and Money Tree. Then there are 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 the income specialists are Asset Dedication (the sole asset manager on the list), Fiducioso Advisors, Wealth2k (whose Income for Life Model uses a time-segmentation or floor-and-upside tool), LifeYield (a specialty tool that models tax-efficient drawdown), and Thrive Income (which employs deferred or period-certain income annuities during retirement).

Although the recession and competitive pressures are said to be holding down prices of financial planning tools, wealth management firms are expected to spend about $319 million on financial planning technology overall by 2013, according to a report, *The Financial Planning Market*, published by the research firm Celent in April 2011.

That's up from an estimated $233 million in 2010. According to Celent, broker-dealers see the latest-and-greatest planning tools as a way to attract and retain high-end advisors, and advisors see the tools as a way to engage, educate and retain clients. Analogous to a smartphone, a financial planning tool's user-interface, its "apps," and its connectivity with other tools are becoming as important as its core function. Not coincidentally, vendors are developing planning apps for smartphones and tablets.

Making room for income

Income functionality is slow but steadily coming to the financial planning software world, where vendors, taking a cue from the advisors they serve, see investors growing older, risk-averse and interested in a safe income during retirement.

"Virtually all the vendors are enhancing their retirement income features," said Alex Camargo, an analyst at Celent who, with research director Isabella Fonseca, wrote Celent's reports on financial planning software last year. "They're adding functionality that would be useful in the insurance world. Because of the general flight to safety, a lot of firms see the insurance world as an opportunity and will build out to them."

As Camargo put it in his report, "Many vendors are now offering cash flow-based and goal-based planning around retirement income, giving advisors the ability to compare scenarios by modifying life expectancy, retirement age, Social Security start date, incomes/expenses, etc.

"Vendors are also beginning to incorporate more advanced planning features such as multi-period and partial retirement, human capital considerations, reverse mortgages, and optimal Social Security calculators."

That is the case at PIEtech, which makes MoneyGuidePro and CashEdgePro and has 120 institutional clients, more than any of its competitors, according to Celent. "We have done a module for showing the benefit of a VA with GMWB floor income, and that's heavily used by some of our customers. JPMorgan

Chase uses it a great deal," Bob Curtis, PIEtech's CEO, told *RIJ*. "It shows you how to much annuity you need to get to fill out a gap." He expects his firm to focus on income planning more in the second half of 2012.

One of the more income-driven tools is Income for Life Model from Wealth2k, which has adapted to changing conditions over the last 10 years, according to CEO David Macchia. It has evolved from what he described as a relatively simple bucketing tool into a white-label multi-media package that combines product-neutral decumulation tools—time-segmentation or a floor-and-upside approach—and slick client-facing presentation.

Advisors at Securities America Investments have been using Income for Life Model for about five years. This year, the tool will be available on the Pershing NetX360 investment platform. But Macchia says that nudging advisors' perspectives from accumulation to distribution is taking longer than he expected.

"My initial inclination was to imagine greater expertise around the retirement income issue than there actually is," he told RIJ. "Advisors are still trying to [use the principles] of the accumulation world in the retirement domain. Advisors can be extremely helpful in creating accumulation portfolios, but they're still not as good at creating hybrid or income portfolios."

The latest products are also reaching out to engage the client as a participant in his own planning process—something that a direct provider like Fidelity, for instance, has been doing for some time.

"There's a growing realization that a proactive client is a sticky client. The vendors are starting to empower the end client to do a little more. They're giving the end-client the ability to create a simple scenario, play around with it using slide bars," Camargo told *RIJ*.

"Then, in some cases, the advisor gets an alert that a certain client logged in. So it can work as a prospecting tool. It can show the advisor what's on the client's mind. That's important, because you often hear that the end-client doesn't communicate with the advisor and that the advisor doesn't understand what the client wants."

Impact Technologies, maker of Retirement Road Map, recently partnered with LIMRA, the life insurance research organization, to create Ready2Retire, which it calls the "industry's first interactive web app that creates a bridge between advisors and customers."

Ready2Retire, uses picture post-card graphics and slider bars to help elicit information from near-retirees about their retirement goals and finances, so the advisor doesn't have to start awkwardly from scratch. T. Rowe Price, the no-load fund company, has already licensed for its advisors, said Dave Freitag, vice president of marketing at Impact Technologies. Individual advisors can license by individual advisors for $499 per year.

Another major trend in financial planning software is integration. A few products, like Advisor Software's Wealth Manager, are relatively self-contained. But most financial planning vendors are increasingly creating web-mediated bridges between their tools and tools with complementary functions.

Product vs. process

Greater integration can serve as a competitive edge or as a cross-selling tool, since a firm can network to the partners' clients. "For example, NaviPlan may not have CRM [client relationship management] functionality built into their solution, so they offer it with a CRM. Or PIEtech might partners with CashEdge to provide account aggregation," Camargo said. "It's not the same as open architecture [because companies don't integrate with competitors].

"A lot of them are integrating into CRM solutions. CRM is a very hot topic for wealth managers and for advisors because they're trying to capture all of the individuals' risk profiles and preferences, and capture the assets," he added. Without integrating, data might have to be transferred manually from one system to another.

"We have a bunch of integration partners and more in the works," said John DeVincent, executive vice president of marketing at *e*MoneyAdvisor. "What's happening is that no one is directly owning the desktop. Although each software company wants to be the desktop tool of choice for advisors, in reality most advisors have five to six applications open at once. They want data to be able to go back and forth between them. So, if *e*Money is integrated with Redtail Technologies, a CRM provider, someone who is a licensed user of *e*Money and Redtail can connect them and use the functionality of both. That's integration."

Ultimately, the scalpel approach to retirement income planning may beat the sledgehammer approach, predicts Freitag of Impact Technologies. As so often happens, less may eventually be more.

"For the most part, the tools are all good and all have different strengths and weaknesses." Freitag told RIJ. "And their cost is all over the map from inexpensive to really costly. The reason that studying them is so hard is that the tools do so many different things. It is hard to compare them.

"To make it more difficult, every producer likes his or her software the best," he added. "It is hard for them to be objective. I see a trend away from high-end comprehensive planning tools however. There is a growing interest in focused analysis tools. These tools are easy to use and, more importantly, easy to explain to the client."

Curtis Cloke, a Burlington, Iowa planner, discovered something like that when he and Garth Bernard began marketing their Thrive Income system. They found that few advisors shared Cloke's passion for a rich tool that enables "custom analytics" and opens up unlimited possibilities. For that reason, Thrive recently began marketing discrete modules of its original product as components for other planning tools.

But Cloke believes that, going forward, true planners will have a competitive edge over mere product distributors. "Only 10% to 15% of advisors are analytic, process-driven people," he told RIJ. "But because of economic pressures that are building up even as we speak, that proportion will swing big-time. Those who choose not to embrace a process-driven method, if only for the purpose of compliance and meeting the fiduciary standard, will simply fade away."