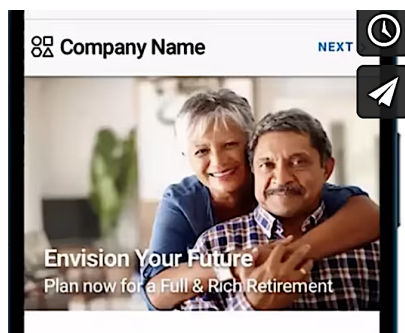


The New Table Stakes: 'Unified Managed Income'

By Kerry Pechter Thu, Oct 14, 2021

To get attention today, income calculation software has to do a lot. Like tell wealth managers and recordkeepers when, in what quantity, and from what sources they should send checks to retirees. Manish Malhotra of Income Discovery explains. (Right: a white-label phone image from Income Discovery's suite.)



Smart people have been writing retirement income planning software for over a decade, much of it very useful. But most of it falls short of what the market demands today: easy-to-use web-based software that checks all the boxes and makes the complex simple.

The difficulty is that there are a lot of boxes to check, and complexity often defies simplification. Complexity is funny that way.

Satisfying retirees—who need to turn a “stock” of savings into a “flow” of income, as MIT’s Jim Poterba put it in a webcast this week—isn’t necessarily the biggest lift. The software has to meet the business needs of the wealth managers, recordkeepers or broker-dealers.

To the extent that those enterprises are buying, building or licensing software or “robos” with income planning capability—and the major ones are—they want those tools to do more than “optimize” a client’s withdrawal rate on the basis of a growing number of variables and preferences.

They want it to encompass or integrate with every step in the client service process, from the online hand-shake to customer relationship management to documentation of due diligence to fulfillment of a monthly paycheck—and, ultimately, to enhance productivity, asset under management (AUM), market share and profitability. Manish Malhotra calls this capability “unified managed income,” or UMI.



Malhotra

"It's a must-have," Malhotra told RIJ this week. He's the founder of Fiducioso Advisors, a registered investment advisor (RIA) whose flagship technology is [Income Discovery](#). Over the past decade, it has evolved into a UMI. He's been pitching it—at \$99 per retail client per year—to recordkeepers, asset managers and broker-dealers.

Malhotra spoke with us this week about the growing demand for this type of product and what makes his stand out. "Our competitors have planning capabilities, but we go beyond planning and issue the paycheck instructions," he said. "The wealth managers don't have paycheck capability, and their advisers are asking for this."

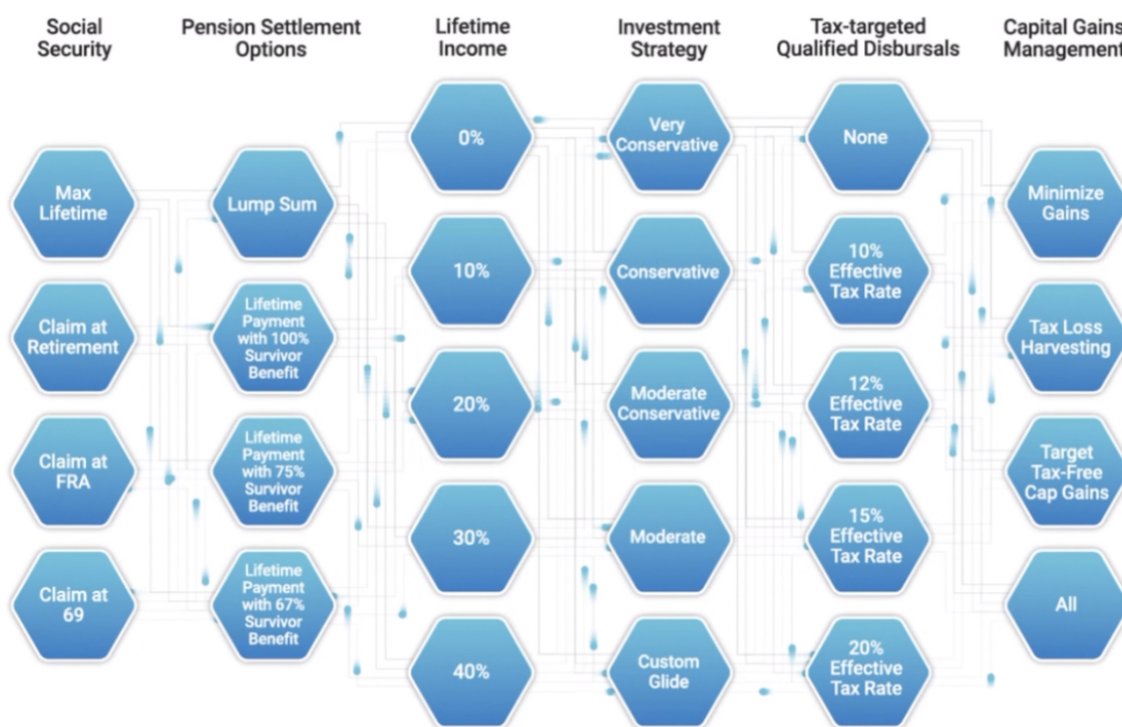
The parts of Income Discovery

Malhotra sent me a few short [video](#) demonstrations of the Income Discovery platform and three of its modules: Safe Income Portal, Income Planning 2.0, and Paycheck. The Safe Income Portal provides a digital front-door for attracting prospects and establishing leads. Income Planning 2.0 is the drawdown optimizer itself. Paycheck is the fulfillment function, deciding how much money to send to clients, when to send it and what accounts to source it from. The service mark for the artificial intelligence powering all this is "AIDA."

In the Income Planning module, a pre-retired client sees three possible options displayed. On the left, there's a playing card-shaped window displaying the client's current strategy—retirement date, Social Security claiming date and benefit, investment asset allocation—and the bad news: that his desired spending rate comes with a 50% chance of portfolio failure at the desired spending rate, which the portfolio can't safely sustain until the end of retirement.

In the middle, there's a field that gives the client a reality check. It shows the (lower) level of income that the current strategy could support with a negligible risk of failure. On the right, there's a panel revealing the good news: that the client could spend even more than the initially desired rate by working longer and/or changing the Social Security claiming date.

Once the client approves a specific plan, the adviser can set up planned disbursements such as monthly income, unplanned disbursements for a large purchase, as well as time-sensitive disbursements for Roth conversions.



The Paycheck program includes automatic communications after each disbursement and a year-end report. If the client is withdrawing more than the system says he can afford, he gets a warning in the report. The idea is to help advisers “grow their retirement decumulation business” and automate “a tedious ad hoc chore” for the adviser.

“We come up with a tax-targeted plan,” Malhotra told *RIJ*. “Based on that, we would issue instructions on how much money will go out, and who will issue the checks. If the money is an account ‘held away’ from the adviser, the client will let the outside institution know and do self-service. We estimate the client’s taxes. We set up a disbursement schedule. We say, ‘This is the amount you should taken from each source.’”

The capacity to direct all this traffic lies with AIDA (not to be confused with the tragic heroine of Verdi’s opera or the famous marketing acronym). As a mere user, however, I was focused on interface. I saw a presentation of information in a choice pattern that allows clients to reach a decision on their own. It also positioned the adviser as the bearer of good news. These steps are arguably as important as the achievement of an ideal income plan—if such a thing can even be said to exist.

The future is UMI

Malhotra created Income Discovery in 2010. It is already used as a white-labeled algorithm

by two of the largest financial services companies. The competition for contracts with the largest institutions is intense, but there's opportunity in any venue where there are older clients with substantial assets who are transitioning from accumulation to decumulation.

In a recent [white paper](#) ("US Retirement Strategies Shift to Decumulation and Mass Personalization") that Income Discovery and [Capgemini](#), the global IT services and consulting firm, co-produced, the authors survey a varied competitive landscape and its emerging opportunities for decumulation wizardry.

If you're interested in this complex space, it makes worthwhile reading. The geography includes old and new entrants. They tend to be on one side or the other of the 401(k)/brokerage IRA divide, although some, like Fidelity and Vanguard, are in both. Tens of trillions of dollars of retirement savings are in play.

In 401(k) plans, the QDIA (qualified default investment alternative) providers, like target date fund managers (e.g., BlackRock, Capital Group, T. Rowe Price) and managed account providers (e.g., Financial Engines, GuidedChoice or Morningstar), need income tools to distract participants from rolling their money over to IRAs at retirement, and to adapt to the anticipated introduction of in-plan annuities. The Department of Labor has mandated estimates of future income from plan balances to encourage participants to think about their savings in terms of income. Plan providers will feel pressure to support it.

"The appeal for recordkeepers and plan sponsors and target date funds is the retention of assets in the plan. The recordkeepers can use this to win new plans and keep existing plans as clients. They are building private wealth management services, and this will lead to asset consolidation," Malhotra said.

On the brokerage side of the rollover border, wealth managers (Merrill Lynch, Morgan Stanley) who want to attract participant rollovers, win older clients and consolidate all their investable assets, are now required by the Department of Labor to justify their rollover recommendations. Retirement income optimization services fit the bill. Tighter DOL regulation of rollovers also brings a need for the kind of documentation that income planning software can furnish.

"If you're a wealth management firm, you reduce regulatory risk, because all your advisers are using the same software," Malhotra said. "You don't have each adviser using a different tool. UMI makes you the go-to place for retirement income advice. It deepens your advisers' relationships with clients, which will make clients more likely to bring all their assets to

you.”

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