Retirement Income
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The ‘Safety First’ Income Planner

By Editor Test *Tue, Jan 10, 2012*

Maryland advisor Antoine Orr couldn’t find an income planning tool that matched his low-risk, low-debt philosophy. So he created the Plancorr Planner.

While growing up on a northern Alberta farm during the 1970s, Antoine Orr hated the chore of chasing stray cattle in a blizzard. So every summer he mended fences and fixed barn doors to make sure that, come wintertime, the cows couldn’t escape.

Today, as president of Plancorr, an insurance-focused planning firm in suburban Maryland, Orr urges his clients to approach their finances with the same sort of cautious foresight that he learned on his family’s Canadian farm.

Aggressively risk-averse, he views debt-reduction as a surer path to lifelong financial security than trying to win in the investing casino. He has even created a “down-and-dirty” retirement planning tool, the Plancorr Planner, predicated on his belief that, in the long run, the “tortoise” investments (i.e., fixed annuities and cash-value life insurance) eventually beat the “rabbits” (mutual funds and 401(k) accounts).

“I’m the ‘Safety First’ guy,” Orr told RIJ recently. “I tell people, ‘If you want the at-risk guys, they’re down the block. Knock yourselves out. Or cut out the middleman and go to Schwab or E*Trade. Or create a DRIP (dividend reinvestment plan) account with a few stocks.’ But that’s not what he’s about. “My job is to build a moat around your castle,” he said.

Sensitive to the potential conflicts of interest involved in selling financial products, Orr strives for transparency and simplicity. In structuring his compensation, he does charge asset-based fees. Instead, he charges fixed fees for specific planning services and takes commissions—but doesn’t bundle the two.

“Clients pay me a fee for a plan. Then they are free to take that plan to another advisor and have him or her implement it. Or they can ask me to implement, I will have them sign another document that gives me permission to purchase products and receive a commission,” he told RIJ.

“I have zero assets under management,” he said. “The reason is liability. I have difficulty with people trusting me about the market. I don’t want to get calls from people when the markets go down in the same year they retire.”

Debt reduction plan

Many of Orr’s clients in the Washington, D.C. area are late-career professionals, working in the government or the private sector, and retirement planning is naturally a central part of his practice. In the past, he has looked at several well-known retirement planning software tools, but decided that none of them fit his needs or his philosophy exactly.

"Having been in the business for 15 years, I had tried just about every kind of planning software out there. I would find one piece that I needed in one product and another piece in another product. It was, literally, a piecemeal approach. No product had everyone I wanted in one spot," he said.

"They were also disingenuous because they never discussed the impact of fees. Some professionals still say that fees don't matter, but I don't share that opinion. I also couldn't do holistic planning with most of them. A lot of them are designed to sell product. Yes, we're all ultimately selling product. But that shouldn't be the first consideration.

"I want to use a tool that s my belief system. To do that, the tool has to accommodate people of modest means or significant means, and it has to handle their needs transparently. I have had doctors earning $300,000 or $400,000 tell me, 'You're the first person to show me the impact of fees or of taxes, or what the alternatives were."

Unable to find an off-the-shelf solution to his liking, Orr spent two and a half years creating the PlanCorr Planner. He uses it with his own clients and licenses it to other advisors for $795 a year. It has the customary functions, like allocating assets, estimating expenses and identifying income sources. But it also includes a "Debt Management Summary," a budget worksheet and a "Financial Freedom Account" that helps people save for purchases that, in the past, they would have financed with revolving credit.

For millions of middle-class pre-retirees, debt is often the elephant in the room, and Orr doesn't let his clients pretend it's not there. In the Plancorr software, for instance, pie charts show how much of a family's monthly cash flow is consumed by payments on debt.

"No one talks about paying down debt," Orr told RIJ. "I say to the client, Let's address debt as a form of investment. We're trying to reeducate and retrain people. Sometimes there are better things to do with the money than invest it. Let's pay down debt. Let's buy disability insurance," he told RIJ.

Spend 401(k) first

Orr bucks the conventional wisdom that defined contribution plans must always be used whenever available. Some of his clients are federal employees whose Thrift Savings Plan has very low fees. But others are in micro plans with annual fees of more than 3%. The Planner can compare the likely long-term after-fee returns of contributions to a 401(k) plan with the benefits, for example, of purchasing cash-value life insurance.

"We're not saying, 'Don't put money into your 401(k) plan,' he said. "We're saying, 'Look and then decide.' The presumption for the 401(k) investor is that he or she will get out more than he puts in. But what if that's not always true? 401(k) plan fees may be greater than the employer match and employee tax deduction during the accumulation phase."

Orr is also a maverick when it comes to retirement drawdown strategy. He recommends tapping defined contribution plans first, not last. "I say, spend down the 401(k) plan first, then the capital gains-generating account, then the Roth IRA, then the cash value life insurance. This lets you gradually reduce the risk to the portfolio and reduce your fees,” he said.

Reducing debt, risk and fees may not suit the accumulation-minded advisor, but they are important principles of decumulation, and fundamental principles for Orr. “For many people, the safety-first mentality involves a ‘paradigm shift.’ But we need to get more people back to basics,” he said. “If your credit card debt is negligible, and there’s no car payment and the house is paid for, you may not need a lot of money to live on in retirement.”