E-volutionizing retirement planning: web-based and consumer self-service tools are beginning to gain ground in retirement planning

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Key Points

* Software applications, including those that use Monte Carlo Simulation, have changed the way many financial analysts now determine clients' retirement planning needs.

* Web-based tools are growing in use among financial analysts.

* Some analysts fear online self-service tools are too simplistic.

THE PERSONAL TOUCH: Frank Congemi, a registered financial gerontologist in Forest Hills, N.Y., and Deerfield Beach, Fla., said the Web has its place in retirement planning, "but it won't replace old things like face-to-face interaction with clients.... You have to explain with common sense, illustrate, story tell, give examples and referrals, which you just can't do online."

Not too long ago, retirement planning focused almost exclusively on assumed static rates of return to determine clients' financial planning needs. Then came the advent of significant software tools, such as Monte Carlo Simulation, and a new world of possibilities opened to planners. Now the industry is in the midst of yet another fundamental shift--this time from retirement accumulation planning, which dominated the market during the past 20 years, to retirement distribution planning. Once again, technology is helping to lead the charge.

Many financial analysts are embracing the use of Web based retirement planning tools to interact in real-time with retirees and to assist the more than 70 million baby boomers who will turn age 59 1/2 and enter the distribution phase of life over the next 15 years.

e-Retirement

"Prior domination of software residing on personal computers now has given way to growth of Web-based applications," said Jeffrey B. Broadburst, an investment adviser with Lansdale, Pa.-based Broadhurst Financial Advisors Inc.

Like many of his peers, Broadhurst recently made the move to Web-based tools, such as MoneyGuidePro that supports a sophisticated, goal-oriented planning process and enables online collaboration with clients.

Web-based tools have numerous advantages. "They allow us to provide clients with a log-in access and they can input data such as budget numbers, view a plan online, change 'what if' variables, access an online risk assessment tool; [the tools] enable us to interact with clients at a distance," said Broadhurst. He said MoneyGuidePro requires clients to articulate their goals; provide dollar amounts, dates and prioritize;" you then add assets and liabilities and have the ability to change variables. From there we can see the percentage of goals that are funded to determine if their retirement is already fully funded or determine what they need to make that happen," he said.

Donald Patrick, managing director of Integrated Financial Group in Atlanta, said times have changed from analysts receiving a CD, putting it on the hard drive and getting updates. "Now Web-based tools provide round-the-clock access and updates, allow clients to access financial information and electronically store important documents such as wills and trusts."

Some analysts, however, are a bit more leery about moving to Web-based tools. Don Martin, president of Los Altos, Calif.-based Mayflower Capital, said he prefers doing his analysis on the desktop. "I'm a little reluctant to trust a remote-based tool because the system could crash or someone could get hold of the data."

Although Frank Congemi, a registered Financial gerontologist in Forest Hills, N.Y., and Deerfield Beach, Fla., believes the Web is an essential tool for relationship building and helping clients locate advisers, he said it's not for everyone. "People are still looking more for advisers in the Yellow Pages. The Internet has a different purpose, but there's a certain generation that doesn't use technology. The Web has its place, but it won't replace old things like face-to-face interaction with clients." However, he said many of his peers think "home visits are not cost effective because of the time it takes and scheduling multiple clients at their office is easier for the adviser."

Broadhurst is more enthusiastic. "PC-based software needs more computing power because of complex applications. Computers continue to get faster with larger chips with more memory, and have the processing power to manage the applications. But this trend toward needing more computing power is mitigated with Web-based software. Additionally, Web-based tools provide us real-time interaction with clients, and going online will be where the real economic savings are" he said.

Self-Service Tools

Analysts aren't the only ones turning to the Web to determine retirement needs. Self-service online tools--everything from retirement income calculators to financial planning quizzes--continue to proliferate on the Internet.

Today, typing "retirement planning tools" in any search engine will result in thousands of hits. But do financial analysts think serf-service online tools paint a true picture of consumers' retirement needs?

While he said the tools are good at raising awareness, Broadhurst fears they're overly simplistic. "Usually there are four or five drop-down boxes they need to select to input growth rate, money and savings data. The tools then calculate how much they'll have at retirement." But he said the tools do a bit of "disservice because it's not financial planning but merely financial calculations about how much money someone will have at age 65." He said they aren't robust because they lack simulations.

Retirement planning is both an art and science, said Mark Chandik, an agent and owner of Financial Diligence Partners in Irvine, Calif. "Calculators for the general public give a general sense if someone is in the ballpark of reaching their goals. However, they don't drill down to specifics that financial advisers can, and it basically just provides a sense of security ... or fear." He also said consumers often don't accurately portray their financial information or target goals when completing online tools. "It's psychological; they know that if they put in a calculator that they'll live to age 95, that will require more money. Part of art is interaction and the ability for a professional to provide feedback and ask questions on assumptions."

Congemi said that eventually people still want someone to hold accountable. "Most of my relationships are long term, and that's because my clients read what I send them. You want to be able to reinforce what it is you're doing. You have to explain with common sense, illustrate, story tell, give examples and referrals, which you just can't do online"

"As an adviser, I'm finding it's difficult to work with all these tools. Just think how consumers doing it for just a haft day must feel. They don't have the financial background, so how can they possibly catch up with me or my peer group?" said Mayflower Capital's Martin. "Consumers think they're getting free financial planning because they're getting attractive pie charts of their financial needs, but it's all 'garbage in--garbage out' because who can magically predict what asset class they're in or correlate that with other classes in the future."

Many believe there's a generation gap when it comes to online consumer tools. "They're great for younger generations because at least it gives them an idea of what they need to be doing; however, we find them almost dangerous for those near or in retirement," said Patrick of Integrated Financial Group. "Part of our job is to coach clients to keep the discipline going and to keep them from panicking during scary times. We find that when people are dealing with assets over $100,000, most people still want an expert looking over their shoulder."

Technology Evolution

While Web-based tools have taken some financial analysts by storm, others still prefer software packages to assist clients.

One of the earliest breakthroughs--Monte Carlo Simulation--remains a dominant force in the retirement planning market. Prior to its release, many analysts determined clients' retirement needs based on assumed static rates of return. That changed recently, however, after many analysts became leery of the approach. "Static rates of return are dangerous. You don't know what the sequence of market events will be, and you can't assume everything will steadily go up. That's not how life is," said Broadhurst.

Monte Carlo, as a computerized tool, changed that as the basis for probabilistic risk analysis. The simulation replicates statistical occurrences by mathematically modeling a projected event.

Over time, other software analysis tools, such as NaviPlan and Allocation Master--to name a few--followed suit. Now some advisers are pointing to a new tool they believe will again change the way retirement planning is analyzed.

BetaVest, which allows users to input and analyze client data, optimizes and creates cash-flow scenarios (optimized with more than 8,000 portfolio allocations), and generates a full set of detailed reports. It was the brainchild of BetaVest Technologies Inc.'s founder Jeff Manry. BetaVest was created because Manry saw there was a lack of existing technology in the industry available to interactively use with clients.

"Software wasn't meant to interact between advisers and clients. BetaVest is designed to engage the client in a process. A lot of hidden meaning hasn't been expressed well to the investing public. The industry now is trying to find a way to grapple with the growing number of baby boomers reaching retirement and the ambiguous financial challenges they face," Manry said.

For three years, Congemi has been using BetaVest and is excited about how he thinks it will change the way advisers assist clients. "Clients can be brought into the planning process because it demonstrates what it is you're doing for them and how you go about the planning process. And the program is modifiable, so changes can be made as events change." While he said his clients are doing both asset allocation and rebalancing, BetaVest is an effective reinforcement tool for what they're already doing.

BetaVest is centered on three concentric factors: deposits/withdrawals or cash flow, asset allocation and sequence of return. "We stress-test portfolio allocation with the cash flow, optimize both, come to an agreement about a plan of action in both areas, and then recommend how we will put the plan in place based on criteria developed around diversification. We then engage the client and have a review process that allows us to monitor clients' progress through relationships in a visual, numerical and goals. based way. That keeps the client on the horse rather than jumping off too early," Manry said.

Unlike Monte Carlo that randomly selects thousands of samples relative to a client's time line and is statistically based on a bell curve to try to predict a future unknown outcome of portfolio performance, BetaVest relies on historical rolling period analysis. The analysis places a client in history and allows him or her to live through every relative time period in sequential order, said Manry. Actual historical returns reflect the probability of experiencing tail-end returns that can materially impact actual outcomes, he added.

On the Horizon

As the shift in retirement planning moves from asset accumulation toward distribution, technology will likely keep pace. "Individuals have done a great job accumulating assets; now the focus is on how to take that money out of assets in a tax-efficient way for a monthly cash flow," said Chandik. "It will answer questions such as what should be tapped first and to what degree. There's a shift as the graying of America continues moving from the accumulation side of things to the distribution side. I believe software will become more geared toward that trend."

"The danger we had with assumed rates of return was that they implied an almost guarantee that something will happen," Broadhurst said. "Whereas tools like Monte Carlo demonstrate that the ultimate outcome will likely be within a certain range, but even that range can't be guaranteed. Psychology and willingness to change are equally as important as the answers being spit out. Part of the solution is technology. It can show us what we need to do. We didn't have the firepower to do all the calculations before, now we do. But investors must change their spending, savings and investing habits if they are going to reap the benefits of sophisticated financial modeling," he said.