MARKET IN THE MIDDLE

OMYEN uses a couple of key tools to try and help financial advisors serve less-affluent clients.

By Joel P. Bruckenstein

According to a recent report from the Spectrem Group entitled “Affluent Market Insights 2011,” there are approximately 8.4 million U.S. households with a net worth of $1 million or more, not including primary residence. These affluent households are usually the ones targeted by the financial services industry. The affluent tend to have more complex finances, and they can afford to pay for professional advice. And generally speaking, comprehensive financial planning products are geared to this demographic. But what about the median net worth household (which was $120,300 in 2007)? Is there a tool that can efficiently produce competent financial plans for this large, underserved target?

Because there aren’t as many planners serving the middle market, the software designed specifically for it is limited as well. But some vendors of comprehensive financial planning software have modified their applications to better accommodate the planning needs of a broader audience. For example, EISI (NaviPlan and Profiles), PIE Technologies (MoneyGuidePro), and OLTIS Software (Finance Logix), to name just a few, have made their applications scalable. These applications can now create simple plans with minimal data entry, though they can still create more complex plans as long as you add the requisite data and perform the additional analysis.

OMYEN, a new entry into the financial planning software market for advisors, takes a different approach. It tries to boil financial planning down to a few key questions that clients want answers to, and then it sets out to answer those questions as quickly and efficiently as possible. These questions are: What is my current overall financial health? What is my capacity for risk? What should my personal asset allocation be? What will my income and expenses look like during retirement, and what are my personal health costs likely to be during retirement?

OMYEM marries the planning tools with a client acquisition tool called Client Discovery, making this package particularly appealing to advisors looking to build a financial planning practice or grow an existing one.

Client Discovery
The centerpiece of Client Discovery, the OMYEN client acquisition offering, is a proprietary tool called the Personal Financial Index (PFI). The PFI module is essentially an interactive client questionnaire with some basic calculation capabilities built in. It covers the following areas: personal details, net worth, cash management, retirement, education, planned major purchases and protection (insurance and estate planning documents). The questionnaire is user-friendly and interactive. In most cases, questions can be answered by moving a slider or pushing a button. As you answer certain questions, the tool performs a quick estimate of the monthly or annual savings needed to fund a goal. For example, if your client plans to send his 5-year-old to a college that currently costs $33,000 annually and intends to pay 50% of the cost, assuming that $20,000 has already been saved, that he is saving $200 per month, and that the savings will grow at 6%, the PFI tool will tell him he needs to save an extra $300 per month to meet the goal. The tool is interactive in that the user can use the sliders to see what will happen if the client lowers the percentage he contributes, lowers the cost of the college, alters the expected returns, etc. As the sliders are moved, the calculations update on the fly.

Once the client has completed all of the questions, the tool generates an overall PFI score. The score is designed to be a single numerical estimate of the client or prospect's overall financial health, in much the same way that a FICO score is supposed to represent a person's creditworthiness. In the PFI system, a 750 is a perfect score. The total is then broken down by category so that users can see in which areas they are doing well, and which areas they are not. Of the 750, 350 PFI points are allocated to debt management, 200 to savings discipline and 200 to risk management. The PFI report, which can be printed to PDF, offers a few sentences of analysis on each scoring area, as well as a few hints about what actions might be possible to improve the score.
The full Client Discovery offering includes a dedicated marketing Web site, including search engine optimization. The idea is to drive prospects to the site. Once there, they get a good user experience as well as the immediate gratification of some result (the PFI score) when they complete the questionnaire. If their score is not what they would like it to be, the site makes it easy for the prospect to contact the advisor for help. Since the prospect has already pre-populated the questionnaire, it can be used as the basis for an initial financial planning engagement discussion. The PFI tool does not need to be deployed as a separate product with a separate Web site, but doing so is an interesting way of marketing to new prospects.

The OMYEN Approach To Financial Planning
The OMYEN Financial Planning System works much the same way the PFI tool does. There are five planning modules: Savings Plan, Risk Capacity Index (RCI), Asset Allocation, Sustainable Retirement Income Planner (SRIP) and Retiree Health Care Planner (ReHP); the last is still in beta.

The Saving Plan section leverages the information collected during the PFI scoring process, allows for any additional inputs or adjustments and then calculates the required savings. It breaks down savings by goal. This allows clients to see the status of their savings toward individual goals such as emergency funds, various debt payments, retirement, college savings, etc. Information is presented in both graphic and table formats. It also briefly addresses other financial planning areas such as debt management and risk management. In essence, it resembles a more detailed version of the PFI report that prospects and clients can generate on their own.

The risk capacity index takes into account things like level of education, sources of income, income level, net worth, knowledge of investments and how clients reacted during previous market downturns. The scoring of this section results in a Risk Capacity Index score for the client ranging from under 200 (very conservative) to over 450 (very aggressive).

Based on one's RCI score, as well as one's goals, including the time horizon associated with the various goals, the asset allocation section provides an asset allocation recommendation by asset class and sub-asset class for each goal (retirement, college savings, major purchases, etc.).

Like the other modules of the platform, the Sustainable Retirement Income Planner leverages information supplied in the PFI and other modules, but it does require just a few more inputs. These are things you might expect, such as whether the spouse is the sole beneficiary of the retirement accounts, the portfolio withdrawal order (the default is tax deferred, non-qualified, Roth, but this can be modified), the state tax rate and the number of Monte Carlo simulation iterations you want to run, if any.

The application divides expenses into discretionary and non-discretionary, but by default, it provides just the total for each bucket. You can, however, drill down and view the individual expenses in each category. The user can then make adjustments by dragging the sliders.

Upon completion of the inputs, users can generate two reports. The first is called the "Retirement Income Schedule." At the top of this report are graphs indicating the portfolio balance drawdown over time; the net income or cash flow withdrawn over time; and a chart showing discretionary, non-discretionary and total expenses over time along with the net income over time.

Below the graphs, the application provides a chart of the expected cash flow on a yearly basis. This chart includes the age of the client(s), estimated distribution, the portfolio(s) the withdrawal is coming from, the beginning and ending estimated portfolio values, estimated taxes, RMD and more. All of these calculations are straight-line calculations that assume a constant rate of return and a constant inflation-adjusted withdrawal rate, except as specified for large purchases, throughout retirement.

Before running these calculations, the program automatically sets aside money to cover any legacy requested. Under certain circumstances, it also sets aside some funds to cover longevity risk. So if the client's Retirement Health Profile indicates that the client has a good chance of exceeding the life expectancy being used throughout the application, it will set aside some funds as extra life expectancy insurance.

In addition to the straight-line calculation method, advisors also have an option of running Monte Carlo simulations on the rates of return and the life expectancies. When you run the simulation, the application produces a graph of the results. A table summarizes the percentage of iterations that meet total expense coverage and non-discretionary expense coverage.

The Retirement Healthcare Planner, still in beta, is perhaps the most innovative portion of the application. Here, the program captures detailed information about health insurance preferences (including Medicare and nursing homes). It also captures health information in the hopes of better estimating a client's potential health-care costs during retirement, as well as his longevity.

Like the Sustainable Retirement Income Planner, the Retiree Healthcare Planner runs two reports. The ReHP reports are very similar to those of the SRIP. You get a Healthcare Services Details report showing total estimated costs per year, as well as estimated out-of-pocket costs by category. It also shows estimated doctor visits, the estimated number of prescriptions, the estimated days in the hospital, etc. The Monte Carlo simulation here looks at different life expectancies. It also simulates different levels of health-care services and costs each year.