Retirement Income Planning, Part 2:
A *Realistic* Comprehensive Planning Model

Part 1 of this series discussed the urgent and wide-ranging planning needs of people facing retirement, and concluded that if financial companies and employers want to serve this demographic group, they need to address *all* these planning needs. In Part 2 we'll further explore the follow-up question: can a comprehensive financial planning approach really work for retirees and, if so, how?

Three Challenges

Since the 1970s, various attempts at comprehensive planning have been tried, especially with younger consumers, and with the high-end market. Success has been spotty, at best. The main obstacles seem to be:

1. Cumbersome data collection and software modeling that takes too much time for financial advisors to use with typical consumers.

2. Lack of understanding by the consumer on what information and data is needed.

3. Inability of software to produce truly integrated solutions.

Creating better software would help, but perhaps the most important element is the consumer himself. In Part 1, we suggested that a key difference between people going through the retirement process and other consumers is that the retiree group is highly motivated to find solutions to their financial problems. Unlike younger people, who are busy raising families and struggling with their careers and who consequently have little time and no sense of urgency about long-term financial planning, retirees are facing immediate decisions that they know they don't understand but need to resolve right away.

Consumer motivation allows us to create an alternative model for retirement income planning, one in which the consumer does most of the work. In this model, the financial company, the employer, or the advisor provides the software tool (a CD, DVD, or access to an on-line web site). The consumer, following user-friendly instructions built into the software, gathers his or her data and *does all the input*.

If this model can be made to work, the advantages are clear:

- The advisor no longer has to spend countless hours sifting through and inputting data, since this is done instead by the consumer. This makes it feasible to serve all retirees, not just those wealthy enough to pay for costly consulting services.

- The retiree gets immediate feedback while doing the input. On-line help and instructions handle questions on the spot. The software requests more detailed information where needed, so the process is completed the first time and does not require repeated calls from the advisor for additional information. And streamlining the input process results in greater accuracy.

> **In our model the consumer does all the input…and gets immediate feedback. The software can then adapt on the fly to the consumer's working style.**

- The software can, if designed correctly, adapt on the fly to the style and preferences of the person who is doing the work. We will address this in more detail shortly.

Some financial companies and advisors might be uncomfortable at first with giving up control of the process. We understand this concern, and propose software that will allow the provider to determine how much or how little the retirees can do on their own, ranging from nothing to everything. The advisor, if s/he wishes, can still perform the analysis and present the plan.

Will consumers actually be willing to do all this work? We acknowledge that there is no solution that works for everybody, but, as we've already noted, we are talking about a highly motivated group of people. Financial advisors specializing in working with retirees have told us repeatedly that most people going through the retirement process will spend serious time on their post-retirement plans, because they instinctively grasp the urgency and importance of the process.

However, there are all kinds of people. How do we develop a tool that suits them all, or even a majority of them?

The Solution: Software that Adapts to the Retiree

F or decades, software developers have been designing programs their own way, then requiring users to adapt to them. Wouldn't it be better if they met the system user more than halfway? And isn't this really essential, not just desirable, if we expect ordinary consumers/employees to avoid frustration and discouragement while providing data to support financial decisions that are often new and mysterious to them?

At Still River, we have been working on a way of doing just that. The first thing we decided was that if we could divide people into appropriate categories, the computer could treat them differently, and they would respond much more favorably.

After considering the pros and cons of various ways of grouping people, though, we decided that this was not quite the right thing to do. We don't need to categorize *people*, only the different *ways* that people want to deal with the planning process.

Four for the Price of One

Our current concept is that, in the context of software design, there are two distinctions worth making when describing the manner in which people deal with complex decisions: *numeric* vs. *conceptual* thinking, and an *impatient* vs. *unhurried* mode of working.

Numeric vs. Conceptual. The most obvious problem with financial software is that it inherently involves numbers, but many people – arguably, the large majority – are not comfortable with numbers and don't like working with them. What can we do for these people? There are several obvious things, once you start thinking this way:

- Explain things in words, pictures, and charts rather than numbers and tables.

- Ask for qualitative rather than quantitative inputs, wherever this is feasible.

- Never ask them to fill in a spreadsheet or grid.

- Use common language rather than mathematical or financial language, whenever possible.

- Generally assume that a number is just a physical artifact to a non-numeric person. It contains no meaning – it is just something to be copied from one place to another.

Impatient vs. Unhurried. Although we said previously that retirees are motivated, they are not all equally motivated. Those willing to make only a modest effort should still be able to get help, while those who are prepared to put more into it should be able to get more out of it. Nor is it just a matter of laziness: some people are short on time, and others just believe in keeping things simple. Good software will give these people an easy way out:

- Ask only for the most essential information. The 80/20 rule applies: you can get about 80% of the way toward a sound answer by asking for only the right 20% of the inputs. And keep in mind that life is always uncertain, so even with infinite data you can never get a perfect answer.

- If details are needed in order to answer a particular question, make sure the user really wants that question answered before you ask for too many inputs.

- Don't make the user skip all over the system: put related elements in one place, then let people drill down to more detail if they want to.

Imagine a financial software package that asks the user right off the bat whether s/he is numerically inclined or not, and is in a hurry or not. That part is easy. Now try to imagine how the answers would affect the input screens. If the picture is not immediately clear, check out the Appendices to this paper. They offer different sample versions of one of the driest and most challenging areas of financial input: assets. If we can make the concept work here, we can make it work just about anywhere.

> **Many people aren't comfortable working with numbers. Good software should adjust to different stvles.**

Note that only the flow of information is shown (it would take many more pages to show actual screen shots). Also note that none of this addresses one of the key problems we identified at the beginning: providing truly integrated financial solutions for retirees. We will address that issue in a later paper in this series.

If this concept intrigues you…

We are always interested in feedback on the strategies we share with you. This is especially true now, since we are still early in the process of developing this kind of software. If you can help us refine these ideas, we are eager to hear from you, and we will look for opportunities to share your insights in later installments of this series.

We are also interested in partnering with financial companies interested in this market. Such partners will have the opportunity to help shape the system while receiving long-term financial considerations and gaining a solid competitive edge.

Appendix 1
Asset Input for **Numeric / Impatient** User

Please enter ASSET information. To make this go faster, you may group all assets of the same kind into one entry, and adjust entries appropriately (e.g., enter *total* market value, *average* rate of return, etc.). Or you can itemize assets individually. Or you can lump some assets into categories and itemize other categories. If you itemize assets, it is advisable to give each item its own name. If you lump assets together using the available categories, you do not need to type in a name.

Space is provided for 15 assets/categories. If you need more, click the [MORE] button at the bottom of the screen. Otherwise, click [DONE] or, if you decide not to submit your entries, click [CANCEL].

The meaning of each column is further explained at the bottom of this page.

Category	Name (optional)	Gross Market Value	Cost (optional)	Expected Net Return	OK To Sell?
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]
[option list]		$	$	%	[Y/N]

[MORE ASSETS]   [DONE]   [CANCEL]

Definitions:
   Category: Select one category for each item. Make sure you use each category at least once, unless you have no assets in that category.
   Name: If you itemize multiple assets in any category, you should name each such asset. If you are lumping assets into categories, you may name such entries, but you do not have to (the category name will be used by default).
   Gross Market Value: Enter the current price you think you would get if you sold the asset today, before paying off any commissions, mortgages or debts associated with the asset.
   Cost: If you wish, enter what you paid for the asset, including any commissions or closing costs. The added information will help us figure out the tax implications of selling the assets – which may make a difference. If you do fill in this information for any assets, include any additional money you put in after the initial purchase. For real estate, include the cost of any improvements you made, but not the cost of repairs or ongoing maintenance. If you have sold off or cashed in part of the asset in the past, subtract any proceeds from your cost (so that, in some situations, negative numbers are possible here!).
   Expected Net Return: Enter the expected annual percentage rate of return (net of any annual fees) for this investment. This includes increase in market value (unrealized capital gains) in addition to any cash income you may receive.
   OK to Sell? Select "Yes" if you are willing to selling this asset. Select "No" if it has sentimental value, if you are planning on passing it to heirs, or if it is otherwise unavailable for sale.

Appendix 2

Asset Input for **Conceptual /Impatient** User

What do you own [check all that apply]?
- ⌐ A house that you live in
    - ⌐ One or more mortgages or home equity lines against this property
- ⌐ One or more other homes mainly for personal use (like a vacation home)
- ⌐ A house, land, office building, or other real estate, owned mainly as an investment
- ⌐ One or more 401(k), 403(b), 457, or other employer-sponsored retirement plans, whose assets you control (note: if you are not familiar with these kinds of plans, you probably don't have one)
- ⌐ An IRA or Roth IRA
- ⌐ Bank accounts or certificates of deposit
- ⌐ Stocks, bonds, mutual funds, annuity accounts, or other investments that you own (*outside* of an employer-sponsored plan or IRA)
- ⌐ Life insurance policies that you own (don't count group insurance from work)
- ⌐ A family farm (check this, even if you are only part owner)
- ⌐ A business other than a family farm (check this, even if you are only part owner)

What is your "net worth"? If you sold everything you [and your spouse] own and paid off all your debts, what would be left? *If you already know the answer, enter it here: $_____, or, if you have time, use the following categories* to help you think it through (don't count anything twice!):
[Note: the system should suppress any items below known not to apply, based on the preceding section.]

If you own a ***home***, and you sold it and paid off any mortgages and home equity loans, what would be left (if you own more than one home, or any other real estate mainly for personal use, include it all here): $_____

If you own 401(k), 403(b), 457, IRA, or other ***retirement accounts*** whose assets you control, enter the approximate current value here (but first subtract out any loans against those accounts): $_____

If you own other, ***personal financial investments*** (stocks, bonds, mutual funds, certificates of deposit, bank accounts, annuity accounts, or anything else of this kind), what is the approximate current value: $_____

If you own any ***life insurance policies*** that you could cash in, what would they be worth (but first subtract out any policy loans): $_____

If you own a ***farm, business, and/or investment real estate***, and sold it all, paying off any mortgages or other debts associated with it, what would be left (you can enter a negative number, if that is appropriate)? $_____

If you own any ***cars, boats, airplanes*** or other vehicles, what is their worth, after subtracting any loans you have against them? $_____

If you own any ***valuables*** that you would consider selling if you needed to, what do you estimate they would be worth? Include art, jewelry, antiques, collectibles, or other unusual property (patents, copyrights, etc.). $_____

What ***debt*** do you have, other than that already subtracted out above? Include bank loans, family loans, credit card accounts, etc. $_____.

   [DONE]   [CANCEL]

Appendix 3

Asset Input for **Unhurried** Users: First Screen

(same *first* screen applies to both Numeric and Conceptual users)

We'll need to look at your current financial picture in considerable detail before we can start thinking about smart approaches to your future. Assets, debts, income, expenses – both current and expected – need to be examined, along with certain other items (like insurance coverages and employee benefits).

Let's start with assets – things you own that have significant value. First, let's start with a simple checklist that will help us focus on what you have, and skip over things you don't have.

What do you own [check all that apply]?
- ⌐ A house that you live in
    - ⌐ One or more mortgages or home equity lines against this property
- ⌐ One or more other homes mainly for personal use (like a vacation home)
- ⌐ A house, land, office building, or other real estate, owned mainly as an investment
- ⌐ One or more 401(k), 403(b), 457, or other employer-sponsored retirement plans, whose assets you control (note: if you are not familiar with these kinds of plans, you probably don't have one)
- ⌐ An IRA or Roth IRA
- ⌐ Bank accounts or certificates of deposit
- ⌐ Stocks, bonds, mutual funds, annuity accounts, or other investments that you own (*outside* of an employer-sponsored plan or IRA)
- ⌐ Life insurance policies that you own (don't count group insurance from work)
- ⌐ A family farm (check this, even if you are only part owner)
- ⌐ A business other than a family farm (check this, even if you are only part owner)

From here, we will ask you for details in each category you checked off, starting at the top of the list, then adding a few items at the end. If you are ready to continue now, click [Continue], otherwise click [Done] or, to disregard any entries you made on this page, [Cancel].

[CONTINUE]   [DONE]   [CANCEL]

Appendix 4

Residence Input for **Numeric / Unhurried** Users: Second Screen

Let's start with your residence(s).   We like to start here, because for many (probably most) families, their house is their biggest single asset – and often their single biggest expense as well. But at the same time, it can be tricky for people to get their hands on the money that the value of their house represents, if they need to. If you have more than one residential property, you have more choices, and perhaps more difficult ones. If we gather enough information, we can help sort it all out.

 [The following paragraph applies only if more than one residential property was indicated on Screen 1.]

You can list up to three residences that you *own*, or own part of. (If you own more than three, group the third and any others into one.) If you own land or other real estate that you do not consider residential for your own or your family's use, but is *solely* for investment or income purposes, leave that aside for now. We'll come back to it later.

	Primary Residence	**Second Residence**	**Third Residence**
What country is it in?	[option list]	[option list]	[option list]
What state is it in?	[option list]	[option list]	[option list]
Who owns it?	[option list]	[option list]	[option list]
How many years have you owned it?	yrs.	yrs.	yrs.
Original cost	$	$	$
Cost of improvements	$	$	$
Current market value	$	$	$
What do you guess the market value will be 10 years from now?	$	$	$
Annual rental income, after expenses	$	$	$
Number of mortgages or home equity lines			
How would you feel about making this your main residence?		[option list]	[option list]
Emotionally and otherwise, how hard would it be for you to sell this property?	[option list]	[option list]	[option list]

Definitions:

Cost: Enter what you paid for the property, including any closing costs you paid. If you have sold off part of the asset in the past, subtract any proceeds from your cost (so that, in some situations, negative numbers are possible here!).

Cost of Improvements: The cost of any improvements you made, but not the cost of repairs or ongoing maintenance.

Market Value: Enter the current price you think you would get if you sold the asset today, before paying commissions or paying off mortgages or debts associated with the asset.

Annual Rental Income: If you earn rental income on any residence, enter the amount you earn each *year*, after subtracting cash expenses. Do not subtract out depreciation.

   [CONTINUE]   [DONE]   [CANCEL]

Note: other screens for other asset/debt types would follow. These are not illustrated here.

Appendix 5

Residence Input for **Conceptual / Unhurried** Users: Second Screen

Let's start with your residence(s).   We like to start here, because for many (probably most) families, their house is their biggest single asset – and often their single biggest expense as well. But at the same time, it can be tricky for people to get their hands on the money that the value of their house represents, if they need to. If you have more than one residential property, you have more choices, and perhaps more difficult ones. If we gather enough information, we can help sort it all out.

 [The following two paragraphs apply only if more than one residential property was indicated in the initial checklist.]

You can list up to three residences that you *own*, or own part of. (If you own more than three, group the third and any others into one.) If you own land or other real estate that you do not consider residential for your own or your family's use, but is *solely* for investment or income purposes, leave that aside for now. We'll come back to it later.

Please enter your principal residence first. If there are others, list the others in order of their importance to you (that is, put last the one(s) you would be most willing to sell first):

Principal Residence:
   What state is it in? [drop-down list of states]
   Who owns it? [drop-down list of options]
   How many years have you owned it? ___
   How much did you pay for it? $_____
   About how much more did you spend for improvements (excluding maintenance and repairs) $_____
   What do you think someone would pay for it today? $_____
   What do you think someone would pay 10 years from now? $_____
   If you have any rental income on this property, we need to consider the income and expenses:
      Would you like to give us monthly figures or annual totals? ⌐Monthly   ⌐Annual
      What is the income? $_____
      What are the cash expenses? (don't worry about "depreciation") $_____
   How many mortgages or home equity lines of credit do you have on this property? ____
      (we'll come back and ask for details on these later)
   Emotionally and otherwise, how hard would it be for you to sell this residence?
      ⌐I could not bear it
      ⌐It would be hard, but not depressing
      ⌐I wouldn't care much
      ⌐I'd be happy never to see it again

[The following two sections appear only if more than one residential property was indicated on Screen 1.]

Second Residence :
   What country is it in? [drop-down list of countries]
   What state is it in? [drop-down list of states]
   Who owns it? [drop-down list of options]
   How many years have you owned it? ___
   How much did you pay for it? $_____
   About how much did you spend for improvements (excluding maintenance and repairs) $_____
   What do you think someone would pay for it today? $_____
   What do you think someone would pay 10 years from now? $_____
   If you have any rental income on this property, we need to consider the income and expenses:
     Would you like to give us monthly figures or annual totals? ⌐Monthly   ⌐Annual
     What is the income? $_____
     What are the cash expenses? (don't worry about "depreciation") $_____
   How many mortgages do you have on this property? ____
   How would you feel about making this your main residence?
     ⌐Definitely against it   ⌐Would prefer not, but it could work out
     ⌐It might be nice   ⌐Definitely something I want to do
   Emotionally and otherwise, how hard would it be for you to sell this residence?
     ⌐I could not bear it
     ⌐It would be hard, but not depressing
     ⌐I wouldn't care much
     ⌐I'd be happy never to see it again

Other Residence(s), if any:
   What country? [drop-down list of countries]
   What state? [drop-down list of states]
   Who owns it? [drop-down list of options]
   How many years have you owned it? ___
   How much did you pay for it? $_____
   About how much more did you spend for improvements (excluding maintenance and repairs) $_____
   What do you think someone would pay for it today? $_____
   What do you think someone would pay 10 years from now? $_____
   If you have any rental income on this property, we need consider the income and expenses:
     Would you like to give us monthly figures or annual totals? ⌐Monthly   ⌐Annual
     What is the income? $_____
     What are the cash expenses? (don't worry about "depreciation") $_____
   How many mortgages do you have on this property? ____
   Emotionally and otherwise, how hard would it be for you to sell this residence?
     ⌐I could not bear it
     ⌐It would be hard, but not depressing
     ⌐I wouldn't care much
     ⌐I'd be happy never to see it again

   [CONTINUE]   [DONE]   [CANCEL]

Note: other screens for other asset/debt types would follow. These are not illustrated here.