Special Report: **Excerpts from FPA's Technology Summit**

Introduction by Tim Welsh, CFP®

The Financial Planning Association's annual conference, held in October 2006 in Nashville, Tennessee, presented some of the financial planning industry's leading technologists convening for a groundbreaking discussion for the first time on the latest trends, developments, and technology evolution currently happening in our dynamic and growing industry. The definition of financial planning can be translated into the analyses and recommendations presented to clients in the financial planning document. As regulators, planners, industry experts, and other interested parties continue to define financial planning, the definition often comes down to the software and technology that planners use to create financial planning documents and analyses.

Thus, the first annual Financial Planning Technology Summit, sponsored by FPA, was especially relevant and important. In this report we have captured some of the highlights of that discussion. Participants in the summit were Mark Evans, Ph.D., Purna Pareek, and Greg Friedman, CFP®. Moderated by Tim Welsh, CFP®, a past FPA board member and president of Nexus Strategy LLC, a marketing consulting firm to the wealth management industry, the discussion covered a variety of topics. A partial transcript of the Technology Summit follows.

Tim Welsh: *The reason we brought everyone here today was to convene a technology summit, to talk about the trends in financial planning technology, what's happening, and how it is influencing how financial planners deliver advice. Let's begin by having everyone introduce themselves and their roles at their companies.*

Purna Pareek: I'm the founder and CEO for Advice America. My job is to look at vision and product strategies, figure out what the industry trends are, and then take that to reality.

Mark Evans: I'm the CEO of EISI. I look at what's happening in the financial planning industry, how technology is playing a role in how planners provide advice, and how to leverage technology to make the tools even more effective.

Greg Friedman: I am president of Friedman and Associates, so I'm a financial planner. I'm also vice president of CRM Software, so I bring an interesting perspective of financial planner and technologist.

Welsh: *One area that we hear a lot about is integration of data and the problems associated with it. What are the challenges and are there ways to solve it?*

Pareek: That's probably one of the most important issues of technology needed in order to increase the adoption rate in all financial planning. The Holy Grail of financial planning actually is to bring data together and integrate it from anywhere that it exists, including portfolios and accounts, liabilities and insurance, credit cards, bank information, etc.

However, that's not going to happen in our lifetime the way things are going, and won't happen until industry standards are developed. If we could get that right, then I think it will be a phenomenal win for everyone.

Evans: The biggest issue is the multitude of different data sources and the lack of standards. I think the larger firms should have an advantage on this because they have already invested a lot in centralizing data management, but there are many barriers to them actually leveraging that. As for the smaller firms, the Holy Grail there gets even more difficult because data sources are spread all over the place, privacy issues arise about trying to get involved with them, and so forth.

It's really been difficult to get those standards to evolve. I do agree, though, that it is one of the lynchpins to getting people to adopt the software and use the tools.

Friedman: I look at the whole integration data issue with two hats. One is what I live with every day developing financial plans. I've been hearing about the Holy Grail for nearly 20 years, so as an advisor I no longer look at that as hopeful. Our view of integration on the technology side is the ability to be as flexible as possible, but with the realization that there will always be a manual step in the process.

Welsh: *What about aggregation? That used to be a very big topic and trend. What's going on with it and how does it impact what you are seeing and doing?*

Pareek: I think aggregation is a great idea, which has been around for almost seven years now. There are two different kinds of aggregation that are available. One is screen scraping and the other is direct feeds such as DST and Albridge. But screen scraping data has been tricky to evolve. The aggregation vendors have made tremendous progress in terms of cleaning up the data and making sure it's good. The challenge is that it's a privacy issue from the consumer and advisor perspective.

Evans: I would agree that Albridge and DST have been more successful because they came on the second wave of aggregation. One of the problems with aggregation is, what value does the client see from it? I actually believe that financial planning is the tool that can leverage that ability to aggregate the data to really provide value, not only to the client but to the advisor.

Friedman: When I hear the word "aggregation" it seems to have so much sizzle. It markets so well. And I can tell you that I've tried it several times in my technology platform, but I also don't have a single client who sits there and says, "Well, I'd really like to have that."

Evans: One of the other problems is the sheer number of organizations out there that can house data. In Canada, we have five banks and they can't even get aggregation going there. I think you're going to find organizations that have a large share of wallet. (Editor's note: "Share of wallet" refers to the institution's share of a client's total investable assets.) They're not doing aggregation through an aggregator—they're doing it through their own systems, which gives them a distinct advantage.

Welsh: *How have the changes in the regulatory environment impacted what you're doing?*

Pareek: Compliance is obviously the hottest topic because after the broker/dealer exemption, [SEC] Rule 202, there are a lot of changes taking place. The financial planning tools providers were probably the most impacted from a technology perspective. We've been asked to develop a solution that will allow the broker/dealers to offer a needs analysis application that complies with the rule. Of course, in the early days everybody had a different definition of 202. It's stabilizing, however, [from a regulatory standpoint], where people seem to have a definition of what financial planning is or isn't.

Evans: I wouldn't go so far as to say that we're over the hump yet. It's going to be the next couple of years before we understand what it really means, especially for large firms. For the small independent advisors it actually doesn't really make that big a difference for them. For the large firms, their biggest problem was, what does it mean? So the first step in large firms was a matter of putting in an entitlement [permission to access an institution's application]. They also changed some wording to get rid of the word "plan" anywhere in those documents—it had to become "analysis" or something else—because if it had "plan" in it, it was a plan, regardless of whether it actually comprised a plan.

On the other hand, it has slowed down the movement of planning in the industry on a large-scale basis. Who it has hurt the most, though, in my opinion, is the consumer. We have so many people who are dependent on getting good financial advice, regardless of which tool the advisor is using.

Welsh: *There's lots of software out there for consumers to do their own planning. Any comments on what it would take for a consumer to adopt some of that and do it themselves or will there be more of a collaboration model between the advisor and consumer?*

Evans: We saw this already in 1999 and 2000, and it just crashed and burned because people need personal touch on this. I think over the next two or three years you'll see consumer tools starting to move out there more. But I don't think you're going to get to the point where the client can go and do it all themselves; it's going to be more collaborative.

Pareek: There are multiple segments in the market, with some using advisors and some not. Online collaboration, dynamic planning, is where the trends are. I think there is a place for online advice because the vast majority of people do not work with an advisor for a variety of reasons—one being that they do not have the asset levels to pay an advisor—but still need planning all the same. But it has to be very simple because consumers just don't like to do planning.

Friedman: From my perspective, I'm thrilled that large companies are coming out with consumer-based tools. There are a lot of people who are not going to seek out an advisor. I see consumer tools getting better and I think that's great. If an investor can get some heads up that they're not on the right track and it steers them to saving more, everybody's better off.

Welsh: *What's the next big thing that's going to come out and change all this and make it much more useable and easier to integrate?*

Pareek: If you build on a modern platform, then you have the scalability and the flexibility that your customers want. From a planning perspective, from a user's perspective, it's the flexibility of the platform. Institutional guys are really interested in creating a special sauce that's their own. One institution does not want to have the same thing as another. From a planner's perspective, no two planners are the same. They like different calculation models, different assumptions, so we have to offer flexibility at the application level. And then you add the consumer on the same platform, and all of a sudden it becomes a very, very complex platform that keeps us busy all the time. So if you have those pieces, I think you're probably going to have a pretty strong scaleable platform.

Evans: I think that the technology really isn't the important part. The end user doesn't care about the technology—they just want it to work. It's up to us to figure out how to make it work. The variances in terms of what people want and what people are capable of doing has led to the biggest development over the last couple of years, which is the leveling of the software. You've seen all of the different providers come out with capabilities that can be configured to the particular organization. That works well from the usability perspective because as these tools become more sophisticated, they become more difficult to use.

Additionally, we need to solve the inconsistencies. Everybody has a different interpretation of even a balance sheet. And until we get standardizations on that type of stuff, it's going to be really difficult for anybody to come up with a tool that's going to satisfy everyone.

I think an organization like the FPA could actually play a role where FPA could accredit these tools in industry-approved approaches. It doesn't have to be one approach, but just some way of vetting—and trying to set the expectations to say this is how it could be done—that falls within the guidelines that we think are valuable for the end user.

Friedman: The next big thing is continued innovation. I think the innovation in our industry, despite the challenges, has been really phenomenal. I also think that continued flexibility of platforms and the ability to permission and customize the applications will continue to make it easier to use and for advisors to be more productive. One last thought is that the tools are only as good as the training of the people using them. So the next big thing in all of this great technology is going to continue to be the training. Until advisors learn what they have, then and only then will the productivity gains be realized.

Welsh: *Thank you all for the great insight today. Because this is such a big topic, we'll continue our conversation at the FPA Business Solutions Conference in February 2007 where attendees will be able to learn more and also participate in the discussion through the Editor's Choice Session.*

To register for the FPA 2007 Business Solutions Conference, February 6–8, 2007, in Denver, Colorado, go to www.fpanet.org.

Talking Point

Your Voice editor added a question of her own to the wonderful and provocative ten questions about the making of the profession that planners Jeanne Robinson and Charlie Hughes created (see this month's "10 Questions" on page ___). Based on a half-serious, half-humorous article in *The New York Times*—"Skip the Coffee? What's Money For Anyway?"—the question is this: Are financial planners in danger of being viewed as national scolds for, as the article's author puts it, using the easy cliché of a Starbucks a day as money frittered away and a retirement doomed to bag-lady status? (If you're a *New York Times* subscriber, you can access the full article; see the online February Talking Point for the link.) More important questions (and definitely not as chuckle-inducing) that you should get in on answering are the ten posed in the interview. Pick all or pick your favorite: discuss them here in the February online Talking Point: www.journalfp.net.

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Focusing on Taxes Misses VA Benefits

To Peter Katt: After reading your article on "The Good, Bad, and Ugly of Annuities" in the November 2006 issue of *Journal of Financial Planning,* I had to write to you not only as a fellow CFP but most importantly as a consumer.

First of all, did you forget the market decline we had in 1999–2000? My husband and I lost over $500,000 in equity because I did not want to liquidate and pay the capital gains tax. Like most people, I never dreamed the market would lose so much value. I learned a valuable lesson from that experience. Never would taxes be my primary concern!

Second, you say that we planners use the "bells and whistles" as a "distraction." What you call bells and whistles I call financial security. There is no other product that allows one to participate in upside gains with downside protection. My husband and I personally own over $1 million in various variable annuities and I sleep very well knowing that we will never have less than we invested and in some cases those gains are locked in annually. Also as a side benefit, I can rebalance my investments quarterly if I want, with no tax consequence.

Third, the average annuity mortality and expense charge is approximately 1.5 percent. Add annual step features and the fee will be around 2 percent. I would gladly pay 5 percent annually if I could have all of the gain back that we lost.

Finally, I fully disclose to my clients all of the expenses and they love this product, especially the ones with 15 years or less to retirement. (By the way, some of my clients are CPAs and attorneys.)

Variable annuities are one of the best products available to financial planners today. Financial planning is more than mathematics. And as a financial professional, I believe you do your clients a big disservice by thinking that tax planning should be the primary focus and by not offering variable annuities as a valuable tool.

Betty Pentola, CFP®, CLU, LUTCF

Broad Brush

Mr. Katt paints with a broad brush. To say that variable annuities are flawed because of the capital gain issue is very closed minded and unprofessional. I have clients, who were in certificates of deposit because of the fear of market risk, whom I put in VAs with living benefits. They've gone up 80 percent in the last four years. I guess they will just have to pay the taxes.

Jon Williams, CFP®, CLU, CSA

Author's response: My November 2006 column reviewed the entire annuity landscape and contained brief comments about variable annuities with guaranteed living benefits (GLBs), which provoked critical letters and several nasty e-mails. My column noted that conventional VAs may be ideal for aggressive traders and market timers but that the cost of GLBs and the conversion of capital gains into ordinary income didn't seem to justify their use. What I didn't comment on in my column, but will here, is the potential risk associated with GLBs.

What I hadn't contemplated in thinking and writing about these "heads-I-win-tails-I-break-even" products is that sellers may be viewing them as the predominant or only investment for clients. Rather, I was thinking about equity investments as part of an overall portfolio. Based on comments from several investment advisors I discussed this with, I believe this issue exposes again the problem of financial planners, as one advisor put it, "who practice financial planning based on a path of least resistance sales strategy while avoiding the more difficult task of educating the client about investment choices."

It is hard to take seriously a debate with a CFP certificant who "…never dreamed the market would lose so much value" and "would gladly pay 5 percent annually" for protection against equity losses, so let me address the critical issue this debate exposes. Variable annuities with GLBs invite product sellers to move clients' money into an "upside with no downside" product without sufficient attention to a cost/benefit analysis, appropriate diversification, and disclosure of risk.

Citigroup Smith Barney did a study of "The New Variable Annuity" in September 2004. (A copy of this study can be found at www.peterkatt.com as a Life Insurance Perspectives dealing with this debate). This study points out that GLBs are more risky than the VAs with death-benefit guarantees that caused havoc at Allmerica Financial and American Skandia in 2002. The most popular and commonly selected GLB is the minimum withdrawal benefit, which the study says is the riskiest of the three. It appears that the strongest finger in the GLB dike is hedging, but experience tells us that such complex strategies always have blind spots within the universe of most-likely scenarios and are inadequate protection if we enter into historically unique circumstances whose probabilities are treated as very remote in hedging models. An insurance company turned sideways because of aggressively promising "upside with no downside," VAs could face reserve strengthening requirements that exceed their free surplus, the definition of insolvency. They would be seized by state regulators. It is questionable whether the state guarantee funds would cover such losses. If they did, it would be limited to $100,000 and this problem could be so widespread that guarantee funds could quickly be depleted. A feasible result would be that many investors would be stuck with their actual VA balances without the guarantees. This would be a real problem for an investor who had committed, say, 20 percent of their portfolio to a variable annuity with GLBs, but it would be a disaster for someone persuaded to place all of their investment funds in such a product based on the pitch that it was fully guaranteed. For those of you who think insurance executives wouldn't be so foolish as to expose their companies to such risk, please look

up Baldwin United, Executive Life, Mutual Benefit, Prudential, Confederation Life, Kentucky Central, and Mid-Continent Life.

This response to my critics is quite unlikely to cause sellers of VAs with GLBs to lose their zeal, but they should at least alert potential buyers to the reality that these guarantees could fail so they can make a more informed decision.

Peter C. Katt, CFP®, LIC

Correction

I am writing to cite George Kinder as a source for Figure 1 in my December 2006 article, "Uncovering and Understanding Your Clients' History, Values, and Transitions."
I inadvertently neglected to site George's landmark book, *The Seven Stages of Money Maturity*, (Delacorte, 1999) as the source of the three columns in that figure. The three column headings are "Heart's Core," "Ought To," and "Fun To," and they pertain to ways in which an individual can designate his or her wishes, intentions, or goals.

Ed Jacobson, Ph.D., had presented the material in Figure 1 at the 2001 Nazrudin meeting, based on work he had done with Aequus Wealth Management Resources in Chicago. In his presentation, Ed carefully cited George's book as the source of the column headings, and noted that he had adapted them for clients to prioritize the use of their wealth. In my article (and in my book, titled *Financial Planning—The Next Step*, FPA Press, 2006), I cited Ed Jacobson and Cicily Maton (Aequus' founding partner) as sources for the figure, and neglected to cite George. I regret any confusion resulting from this omission.

Roy Diliberto, CFP®