



## EXECUTIVE SUMMARY: 2012 Diversity Software Functionality for Financial Planners

*Written on behalf of the FPA Diversity Committee by:*

- **Stuart H. Armstrong II**, CFP<sup>®</sup>, ChFC<sup>®</sup>, CLU<sup>®</sup>, CLTC, ADPA<sup>SM</sup> - Centinel Financial Group, LLC
- **Rita Cheng**, CFP<sup>®</sup>, CRPC<sup>®</sup> - Ameriprise Financial Services, Inc.
- **Joshua T. Hatfield Charles**, CFP<sup>®</sup>, ChFC<sup>®</sup>, CLU<sup>®</sup>, CEP<sup>®</sup>, CLTC, ADPA<sup>SM</sup> - SPC Financial, Inc.

Through its Diversity Initiative, the Financial Planning Association<sup>®</sup> (FPA<sup>®</sup>) established the FPA Diversity Committee in an effort to raise awareness and promote an environment that embraces diverse communities of consumers and professionals. FPA is dedicated to providing knowledge, advocacy, community and leadership to all those who need, support and deliver professional financial planning. FPA believes that everyone, no matter what their situation or economic status, can benefit greatly from the experience and advice of a competent, ethical financial planner. FPA strives to increase opportunities and access for the widest spectrum of people so that all may join, collaborate and thrive within an inclusive financial planning community.

The Committee found that unmarried couples, both same-sex and different-sex, are not having their needs met through traditional financial planning software. As a result, the Committee surveyed financial planners soliciting feedback on financial planning software for unmarried couples.

## Setting the stage:

Statistics show that the number of unmarried couples who share the same residence is on the rise. According to the U.S. Census Bureau, just two years ago, the number of opposite-sex couples jumped 13 percent, to 7.5 million. The number of same-sex couples living together in 2010 also increased over the previous year—up 30 percent—from 476,000 in 2009 to approximately 620,000 in 2010.

Additional research confirms that the trend is continuing to grow, which presents unique financial planning concerns to same-sex couples, as well as challenges for the financial planning professionals they work with.

With the patchwork of states that have approved some version of couples recognition—calling it either marriage, civil union, or domestic partnership—and the states extending varying levels of legal protection and rulings along those lines, the planning complexities for planners who work with unmarried couples and same-sex couples is daunting. There is a significant opportunity for the software industry to fill the gap.

## Who is included in the affected demographic?:

- Baby Boomers (born 1946-1964) who never married, divorced, or were widowed
- Those who prefer companionship to marriage in order to maintain and preserve income in retirement (Social Security benefits or survivor pension benefits)
- Gay, lesbian, bisexual, and transgender couples

## The issue at hand:

The financial planning industry has not responded to the changing demographics of our country.

The software industry is fragmented and has not caught up with demographic trends. While it may be difficult for one company to take the first step and develop products to serve what seems to be a niche market, it is important that we demonstrate the need.

## The typical workaround:

Since robust software doesn't currently exist to meet the needs of this demographic, many planners use Excel spreadsheets. While this option is useful, it requires a tremendous amount of manual data entry—and isn't a perfect solution because it prevents planners from adopting a more integrated approach to financial planning for their clients.

Additionally, if one variable is not accurate in a formula—such as planning for insurance needs, or even retirement—it could lead to an inaccurate estimate for the client, which could have financial consequences. **Based on our findings, most planners surveyed say they would switch to a targeted software package to help them best assist this population.**

## The long-term goals:

The survey questions point to a number of areas that have been commented on by individual advisers in conversations with their peers.

- We plan to demonstrate what planners in the community are saying about working with clients in nontraditional demographics and to show software companies what how they can fulfill their needs.

- Provide information to software developers so that they will consider addressing the needs and concerns that financial planners are raising.

### **The survey:**

- The survey was sent to approximately 5,500 FPA members.
- Distribution focused on 500 members who previously indicated that they provided “nontraditional family” financial planning.
- Also included was a random sampling of FPA CERTIFIED FINANCIAL PLANNER professional members to develop a well-rounded sampling of responses.
- The survey was also sent to PridePlanners, a group that provides networking opportunities and marketing and educational information to financial planners who specifically work with gay and lesbian individuals and families, which has about 100 members.

### **The findings:**

- The majority of respondents currently provide financial planning services to couples that are unmarried and/or in same-sex relationships.
- Of those who do not currently provide financial planning services to couples that are unmarried and/or in same-sex relationships, most do not plan to expand to that demographic within the next 12 months.
- Respondents who currently provide financial planning services to opposite sex married couples report that a large majority of their other clients are same-sex couples.
- Most respondents expect the number of same-sex couples that they serve to increase, while expecting no change in the number of opposite sex couples or unmarried widowed clients.
- The majority of the unmarried and/or same sex couple clients of respondents reside in California.
- The top five current software vendors for respondents are (in order from highest percentage):
  - PIETech Inc. (MoneyGuidePro)
  - Money Tree Software, Inc. (EasyMoney, Golden Years, Silver Financial Planner/Silver Online, Total Planning Suite)
  - Zywave (Emerging Information Systems, Inc., EISI, NaviPlan Select, Profiles Forecaster, Profiles Professional)
  - eMoney
  - Morningstar, Inc. (Morningstar Advisor Workstation, Morningstar Principia)
- The top function currently provided by the software is the ability to generate reports (balance sheet, asset allocation, retirement projection) on combined household members.
- Respondents indicated that the top feature they’d like software to be able to provide for same-sex couple clients is accurate calculation of benefits for non-spouse beneficiaries for qualified plans and IRAs.

## The Survey Data:

*Following are the 10 survey questions and the results of the questionnaire, FPA 2012 Diversity Functionality in Planning Software*

### **1. Do you currently provide financial planning services to couples that are unmarried and/or in same-sex relationships?**

- Yes: 71.88% (184 of 256 respondents)
- No: 25.78% (66)
- I don't know: 2.34% (6)

### **2. In the next 12 months, do you expect to start providing financial planning services to couples that are unmarried and/or in same-sex relationships?**

- Yes: 19.7% (13 of 66 respondents)
- No: 48.49% (32)
- I don't know: 31.82% (21)

### **3. What percentage of your clients are:**

- Unmarried opposite-sex couples (not including widowed clients): mean is 7.1 (174 of 184 respondents)
- Unmarried widowed clients who are cohabiting (including unmarried widowed clients in a same-sex relationship): mean is 3.67 (161 of 184 respondents)
- Same-sex couples (not including widowed clients): mean is 12.68 (174 of 184 respondents)

### **4. Please indicate how you expect your client base to change, if at all, over the next 12 months:**

- Unmarried opposite-sex couples (not including widowed clients): most expect no change
- Unmarried widowed clients who are cohabiting (including unmarried widowed clients in a same-sex relationship): most expect no change
- Same-sex couples (not including widowed clients): most expect an increase

### **5. In which state or providence do the majority of your unmarried and/or same sex couples reside?** The top five, based on 186 respondents, include:

- California: 19.02%
- Texas: 7.61%
- Massachusetts: 7.07%
- Illinois: 5.44%
- Maryland: 4.89%

### **6. Who is your primary planning-software vendor?** The top five, based on 186 respondents, include:

- PIEtech Inc. (MoneyGuidePro): 16.85%

- Money Tree Software, Inc. (EasyMoney, Golden Years, Silver Financial Planner/Silver Online, Total Planning Suite): 15.22%
- Zywave (Emerging Information Systems, Inc., EISI, NaviPlan Select, Profiles Forecaster, Profiles Professional): 14.13%
- eMoney: 10.33%
- Morningstar, Inc. (Morningstar Advisor Workstation, Morningstar Principia): 7.07%

**7. What are the functions provided by your planning software?** The top five, based on 184 respondents, include:

- Ability to generate reports (balance sheet, asset allocation, retirement projection) on combined household members: 63.04% (116)
- Data entry for two unmarried individuals within the same household: 56.2% (104)
- Ability to generate reports (balance sheet, asset allocation, retirement projection) on individual members in household: 37.5% (69)
- Transfer on death destinations for non-qualified accounts: 34.24% (63)
- Ability to handle an asset with one ownership type, such as joint with a related/offsetting liability of a different ownership type, or an individual; and accounts for unmarried couple taxes at the federal level: 25% (46)

**8. Which functions would you like your software to provide to assist you with planning for unmarried and/or same sex couples?** The top five, based on 184 respondents, include:

- Accurate calculation of benefits for non-spouse beneficiaries for qualified plans and IRAs: 55.44% (102)
- Allowing for different drawdown percentages on a couple's aggregated portfolio: 52.17% (96)
- Models the tax impact for asset transfer (estate equalization with a new couple or in the event of separation) or estate planning for unmarried and same-sex couples: 50.54% (93)
- Data entry for two individuals who are married at the state level, but not federally: 47.83% (88)
- Accounts for unmarried couple taxes at the federal level: 45.65% (84)

**9. What workarounds do you use to accommodate software shortfalls in assisting unmarried and same-sex couple?** The survey garnered nearly 100 comments; here are five of the most revealing ones:

- "Money Tree software allows for some modeling for individual circumstances. Planning software is very long-term and not intended to be specific to the dollar for year-to-year detail."
- "I have to fudge the tax. No Social Security benefits for living partner. Estate tax issues cannot be currently worked around. Have to do it basically manually."
- "When we have either married same-sex couples or unmarried couples, we end up having to provide individual financial plans for each person. This approach is accurate, but labor-intensive and also gives the impression that they are not a household/family, which is unfortunate. This is a huge oversight by the financial planning community and should be addressed. As DOMA (the Defense of Marriage Act) approaches being ruled unconstitutional, this issue will go away for married persons, but the issues will still be there for unmarried couples, whether they are same-sex or not. We make 'adjustments' by adding or subtracting expenses related to the over statement or taxes, benefits, etc. Surely not very accurate but better than not changing them at all. The federal versus state taxes is the big one, as well as assuming that the couple is married, which taxes the additional income from the lower-income partner at the higher combined income when in fact they prepare taxes separately and have their own tax-bracket issues. We do that via spreadsheets that accompany our plans and let us know the amount of adjustment that

- needs to be made to the cash-flow and retirement projections.”
- “Generally, I do individual plans for investments and provide manual calculations/spreadsheets for missing plan components.”
  - “I must run programs separately for same-sex couples, so it doubles the data entry effort. I also need to analyze tax issues separately. 72T withdrawals (penalty-free early withdrawals from IRAs) seem to be more common with same-sex couples and singles, and I need to work around this calculation with Money Tree. I will be moving to MoneyGuidePro in the near future. Much improvement seems needed in *affordable* FP software for niche advisers such as myself.”

**10. Is there anything else you’d like to share?** Of about 25 responses, five include:

- “I believe the incidence of opposite-sex couples unmarried with children will dramatically increase over the next decade.”
- “Other issues related to state income taxes for all clients. For example, if a client lives in Massachusetts, which has a state income tax, but plans to move to Florida in retirement, the plan continues to show Massachusetts state income tax even though Florida has no income tax. Most software doesn’t allow you to change the tax residency in your projections, and for unmarried couples living in different states it usually doesn’t allow a “married couple” to have two states of residency for planning purposes.
- “Thanks—this project has been long in coming and badly needed.”
- “I would like the ability to evaluate other issues with widowed, divorced, same-sex individuals and same-sex couples such as: Social Security benefits, better checklist of estate planning and contingency planning documents (state specific), Medicare benefits. Also would like more flexibility, analysis, and utilization of assets held in irrevocable trusts during lifetime (rather than just after death).”
- “I would also like software that doesn’t assume everyone has children or is married. About 25 % of my clients have no children and are married.”
- “Congratulations on this effort. It has been extremely frustrating so far. I applaud you for taking this on. In the past I have asked various vendors to do this but never got anywhere.”

## **About FPA**

The Financial Planning Association® (FPA®) is the largest membership organization for personal financial planning experts in the United States and includes professionals from all backgrounds and business models. FPA is an open and inclusive community that fosters the value of financial planning, and advances the practice and profession of financial planning.

For more information about **FPA’s Diversity initiative**, visit [www.FPAnet.org/professionals/Connect/diversity/](http://www.FPAnet.org/professionals/Connect/diversity/)