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Beware Software Flaws That Can Derail Financial Plans

Advisory industry shouldn't accept problems as the norm

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Kelly S. Olson Pedersen is founder and chief executive of Caissa Wealth Strategies in Bloomington, Minn. Voices is an occasional feature of edited excerpts in which wealth managers address issues of interest to the advisory community. As told to Cheryl Winokur Munk.



Kelly S. Olson Pedersen is founder and chief executive of Caissa Wealth Strategies in Bloomington, Minn. ... The financial-advisory industry should put more pressure on software providers to be forthcoming and fix issues promptly.
PHOTO: MADDIE MALAT

In the course of preparing financial plans for our clients, my firm has uncovered critical flaws with several of the financial-planning software packages on the market today.

Working off flawed information can cause clients to make a multitude of improper decisions in areas such as when to retire and how much they will need for their retirement. We have seen plans be off by millions because of various software issues. This could ultimately be fodder for lawsuits as people are living longer and potentially outliving their nestegg, and the advisory community should be aware of the issues.

My firm first discovered an issue after an upgrade to our financial-planning software. Plans for clients started to generate vastly different outcomes. It soon became clear that the software was dropping off excess expenses into thin air instead of forcing a sale of assets to cover them. On the flip side, it was dropping off excess income unless we implemented a special workaround for each of these items. We soon realized we needed to go back to square one and test many of the calculations before we could trust the software again.

The next significant issue we ran across was regarding a life-insurance analysis for a client who owns his own business. We know our clients well and had a general idea of about how much insurance he would need to cover his income replacement and the mortgage payments. So when the financial-planning software came back with an estimate that significantly undershot the need we anticipated, we were quite shocked and investigated further. We discovered that our software was not taking into consideration the income distributions from his limited liability company.

After calling our software provider to determine why there was such a discrepancy, we learned this was a known issue that had a special workaround. However, it was up to the adviser to implement the fix even though the software company hadn't informed

advisers of the issues. This is troubling because if you don't know there are issues with the calculations, then most likely the workaround won't be implemented, resulting in inaccurate planning advice.

Another area ripe for problems: Financial-planning software is revised every year for tax updates, and advisers can't just assume that the software will continue to produce accurate outputs. They need to double check everything.

The financial-advisory industry should put more pressure on software providers to be forthcoming and fix these issues promptly as well-known tax-related software companies do. These companies should be held accountable for the outputs they provide.

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