Efficacy of Publically-Available Retirement Planning Tools

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Abstract

The shift in the U.S. from defined benefit plans to defined contribution plans increases employee responsibility for estimating their own optimal retirement savings needs. Retirement planning has been a mystery to individuals and families due its complexity combined with uncertainties about the future. As a result, dozens of online retirement planning tools, most using differing inputs and default settings, are offered to the public with the intent of helping individuals and families unravel this mystery. The differing inputs invites the question: which inputs are necessary for publically-available retirement planning tools to provide appropriate information? We explore this question through a survey of financial professionals, then test multiple scenarios on a number of publically-available retirement planning tools to explore their effectiveness in providing reasonable retirement funding information in alignment with the professionally recommended inputs.

Previous research indicates that retirement advice coming from publically-available retirement planning tools may be dangerous for individuals to use for planning purposes but may be sufficient for educational purposes. For this study, we survey approximately 300 financial professionals for their opinions on the key inputs required to obtain a reasonable estimate of

retirement funding needs. We find that financial planning professionals are not in agreement regarding the basic inputs needed in a basic retirement planning tool. Moreover, they are not in agreement with online retirement planning tool designers either.

Using our survey results and prior literature, we first create five scenarios of increasing complexity, starting with a base model. We use financial planning software used by professional advisors to create benchmarks of expected retirement planning results. We then analyze 41 online retirement planning tools to determine the inputs and default settings used by each tool and to compare their individual results to the results from the professional software.

Overall, we find that variations exist among inputs and default settings used among the tools as well as large variations in the results, even for the base scenario. We find that a large majority of the tools tested are missing many key inputs to retirement planning calculations. Thus, we conclude that many online retirement planning tools are extremely misleading in their retirement planning results, raising questions about their effectiveness, even for educational purposes. We encourage a standardized set of inputs be used to greatly improve the quality and efficacy of online retirement planning tools available to the public.