A Fintech Fix for the Small Plan Cost-Crisis

By Kerry Pechter *Thu, Mar 1, 2018*

'We're offering to clean house in a very fragmented broker market,' said Shin Inoue, CEO of ForUsAll, a turnkey 401(k) provider. Founded in 2014 by three former Financial Engines executives, ForUsAll has received $34 million in private equity financing.

The 401(k) business and the petroleum business in the U.S. have this much in common: Like most of the big, easy-to-reach deposits of oil, most of the big, easy-to-identify retirement plan sponsors, with their huge employee-fed pools of savings, have been identified and tapped.

There's still a lot of fossil fuel left in America, but much of it exists as bubbles in ancient shale. Similarly, billions of dollars in savings is waiting to be extracted and managed, but it's atomized in the paychecks of millions of employees at tens of thousands of small establishments that either don't yet have retirement plans, have poorly managed plans or plans that charge participants abusively high fees.

This is one way to look at the "401(k) coverage problem" and the "under-saving problem" that people in the retirement industry talk about. Ideas for solving the problem vary. The state of California, eager to facilitate savings by middle-class and minority workers, has set up a mandatory Roth IRA for small businesses. Big asset managers are backing legislative proposals to let unrelated, non-unionized small businesses join large virtual "multi-employer" plans.

"Fintech" firms bring a third option to the table. Backed by private equity, these firms are leveraging the Internet cloud, API technology, "machine learning," low-cost passive investments and the latest in "on-boarding" practices to make 401(k) plans cheap, easy, and riskless enough for small company employers to sponsor.

One of those fintech firms is **ForUsAll.com**. It was co-founded in 2014 by Shin Inoue, David Ramirez and Dave Boudreau. All three are veterans of Financial Engines, where they helped turn Bill Sharpe's Nobel Prize-winning investment ideas into the first and biggest 401(k) robo-advisor, with a current market cap of $2.26 billion. (Financial Engines recently **announced** a deal with ADP to increase its own penetration of the small and mid-sized 401(k) market.)

Initially funded by Foundation Capital (led by Financial Engines chairman Paul Koontz) ForUsAll markets its turnkey 401(k) services to existing small plans that it believes are underserviced and overpriced, rather than try to recruit employers who have never sponsored a plan.

ForUsAll recently received its third round of venture funding, for a total of $34 million, and it passed the $500 million mark in assets under administration. Shin Inoue (below right), the CEO, spoke with *RIJ* back in 2015, and then again a few weeks ago. Here's an edited record of our most recent conversation.

RIJ: Shin, can you tell us a little about why you, David Ramirez and Dave Boudreau decided to leave Financial Engines and start ForUsAll?

Inoue: Twenty years ago, Financial Engines focused on the Fortune 500. It was the first 'robo-advisor.' Now that baby is all grown up. It serves $140 billion in assets. After FE went public in 2010, some of us took a step back and asked why, even with all our success, the system was still broken. America is $6 trillion underfunded for retirement.

When you dig into the data, you find that it's not the people in plans at Fortune 500 companies who are hurting. It's people in small firms—the 70 million people who are likely to be underserved or overcharged by the 401(k) industry.

Digging farther into the question of why the system doesn't work, we found that the big financial institutions that administer 401(k) plans, like Vanguard, Fidelity, PayChex and ADP, have a hard time going down to small businesses and serving them well. In their business model, it's hard to do it economically. That's what's preventing the retirement system from working for everybody. We founded ForUsAll to fix that problem. The only way to serve them well is with technology. That's what we bring to the small and medium sized companies.

We provide the broker-advisor layer. By bringing technology to that layer and to the compliance layer, we provide the whole advisor package. The small plan advisors have no incentive to provide technology. We're a registered investment advisor (RIA). We take on specific fiduciary roles, such as 3(38), 3(21) and 3(16) roles.

RIJ: How does ForUsAll distribute its services? Do you work with companies that don't have any plan—green field plans—or just existing plans that you consider subpar? Do you have sales people?

Inoue: No boots on the ground. That would be very expensive. Clients generally find us online and through referrals. We're not starting green field plans. Our sweet spot in terms of plan size is between 10 to 500 employees, but we have clients with thousands of employees. Initially we thought we would focus on companies with 10 to 50 employees, but realized we could help larger firms as well.

When we go to existing plans—the ones that we ultimately serve—they're usually broken in two ways. First, compliance is out of whack. That’s underserviced, and it’s labor-intensive. Fixing mistakes in 401k plans, and anywhere in financial services for that matter, is costly and time-consuming. The brokers who sold the 401k in the first place usually don’t handle compliance very well. They don’t have that expertise. That’s where we come in. And we can cut the cost of the plan by half or two-thirds.

RIJ: What’s your range of fees?

Inoue: We charge employees somewhere between 0.45% and .7% all in. We wanted to keep it at about half a percent. We saw that as the average at large companies, and we wanted to provide small businesses with something comparable. From a cost standpoint, we wanted to make it a no-brainer. [See chart below for fee schedule on ForUsAll’s website.]

RIJ: And what kind of results are you seeing?

Inoue: We achieve close to a nine-out-of-ten to participation when we take over and contributions typically rise to 8%. So there’s twice as much going into the plan as there was before. Our virtual advisor, ‘DAVE,’ plays an important role in making that happen.

RIJ: According to your website, DAVE does a lot. He onboards new participants using text and email, explains enrollment options, helps people roll-over existing 401(k)s, offers Roth or traditional retirement plans, and explains the basics of investing in a 401(k).

Inoue: We’ve found in-person seminars to be pretty ineffective at engaging employees, answering their questions, and driving higher participation and savings rates. They aren’t one-on-one and it’s hard to retain information after just one educational session. DAVE distills the information down to the basics, allows participants to choose their own journey at their own pace, and allows them to revisit as they see fit.

I’d say DAVE’s success is rooted both in its ability to explain complicated financial topics in a way that’s easy to understand. As I mentioned above, every participant gets to customize their journey so they can dive deeper into areas they don’t understand and breeze past the areas that are familiar. There isn’t an ‘artificial intelligence’ component to DAVE yet.

RIJ: What other technologies have helped you drive down the costs? Is it APIs, or Application Programming Interfaces?

Assets	Employer Fee	Advisory Fee (% of assets)
< $250k	$200 per month	0.35%
$250k to $5m	none	0.35%
$5m to $20m	none	0.30%
$20m to $50m	none	0.25%
$50m +	none	0.20%

Inoue: APIs helped. But a bigger factor has been the move to cloud-based services. The cloud enables you to integrate the administrator and other functions. It lets you make connections with other systems.

RIJ: As far as your partners are concerned, you mentioned when we last talked that you were working with Lincoln Trust, which has rebranded as LT Trust.

Inoue: We work with most major recordkeepers, not exclusively LT trust. We almost always allow our customers to keep their employees' money where it is—with their existing provider. We work with 35 recordkeepers now.

RIJ: And your asset manager?

Inoue: We use Vanguard funds a lot. New participants are defaulted into Vanguard target date funds with a contribution rate of 6% of pay, moving up 1% automatically over time to a maximum of 15%.

RIJ: You mentioned that at least some parts of the 401(k) system aren't working. What isn't working? The investment and the recordkeeping segments seem to be efficient that their services are commoditized. So what segment exactly do you intend to disrupt?

Inoue: There are three different types of players, or layers, that serve plan sponsors. First you have the mutual fund layer. Then there's the record-keeper level. When you look at asset management and recordkeeping level, the top 25 players have a 90% market share. Then there's a third layer that involves the brokers and advisors that sell and service the small plans. There are currently 307,000 brokers advising 650,000 small plans. That's how fragmented the third layer is. There's no reason why the small-plan 401(k) business should need 307,000 brokers.

RIJ: Yes, I've heard many 401(k) advisors called "blind squirrels," who stumble into the plan business accidentally and advise only a couple of small plan sponsors. Most don't specialize in 401(k) advice. So they can't offer economies of scale and they don't become experts in that area.

Inoue: When the Department of Labor audits small plans, two out of three plans fail. Last year, small companies paid $1.1 billion in fines to the DOL for failing their audits. So the mutual fund and recordkeeping layers work, but the broker level doesn't. That's what I call underserved. And they pay two to three times more in expenses than large plans do. That's where the issue is. We're offering to clean house in a very fragmented broker market.

RIJ: And how will you do that?

Inoue: The small plan market has been so fragmented that there were no incentives to invest in technology. But somebody had to make that investment. That's what we're doing. If you do it right, it's a very scalable business. Just as the asset management and recordkeeping layers have consolidated, the advisor layer should consolidate. The top 25 providers in the broker layer should own 90% of the market.

RIJ: What trends exactly are making the existing model obsolete? Is fee compression reducing the incentives for advisors? Are they pricing themselves out of the market?

Inoue: Consolidation in the industry and the move to next-gen [digital] advisors like us are partly a natural evolution of fee compression. But the government's introduction of fiduciary aspect of retirement plans—which I'm a big fan of—has also accelerated that process. The DOL is putting more auditors on the field and giving small plans the same level of scrutiny they give to big firms.

The DOL wants to make sure that the retirement assets are well taken care of, without conflicts. But it's unreasonable to expect people at small companies with fewer resources to know everything they need to know. The only way to do that is to introduce technology that can take over the administrative burden, the compliance checks, and take on the liability. That's the level of service that's required now, and it's now possible and feasible for us to deliver it.

RIJ: Thanks, Shin.