Maximizing Revenue and Minimizing Risk

in the New Retirement Information Era

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Overview

An explosion of data in the retirement space is putting constant and seemingly insurmountable pressure on retirement providers and the legacy technology systems being used to track fees and information and invoice their accounts. This is resulting in missed revenue opportunities, a drain on resources and increasing regulatory risk in the new fiduciary era. Luckily, new technological advances can simplify the data collection and maintenance processes creating new levels of billing accuracy, efficiency and transparency. Read on to find out more.

The Great Information Implosion

Retirement providers are facing an information implosion—a data deluge that is overwhelming their systems and creating convoluted billing processes that strain relationships, lead to revenue shortfalls and put organizations at risk.

So where is all this data coming from? It starts with asset growth. Total client assets recently eclipsed $200 trillion globally, and this figure is expected to climb to nearly $300 trillion by 2020, according to PwC. The 100 million Americans with 401(k)s have pushed the total amount of assets held in these accounts to $5.26 trillion in 2017, up significantly from just $1.74 trillion in 2000. Together with IRAs, defined contribution plans and all other retirement accounts, the total amount invested in U.S. retirement accounts topped $26 trillion in 2017.

Adding to this data explosion is the rising number and complexity of advisor fee schedules and the sheer number of mutual funds and associated fee schedules and payment nuances.

For retirement providers, keeping track of all this information is getting even more onerous considering it is being held in countless legacy technology systems attempting to reconcile conflicting data stored in inconsistent formats. Most experts agree that ongoing consolidation in the retirement space will only exacerbate the issue. More than 200 investment management businesses merged in 2017, and research shows the pace of M&A in the industry is likely to continue. This dealflow leads to more complexity and incompatibility as retirement providers come to the table with their own legacy systems that are often cobbled together with inefficient information flows and competing formats.

“As a retirement plan provider that has accumulated more than $28 billion in assets under advisement through organic growth as well as 11 acquisitions over the past decade, we’ve experienced data explosion and system complexity firsthand,” says Brian Overby, President of Alerus Retirement and Benefits. “And while growth is always the business goal, it certainly created some operational challenges for us to overcome. We had to look at our systems, our process and our people from a

different perspective to account for a growing number of fee schedules and share classes and the information demands that put on our organization."

Making matters worse, heightened regulatory scrutiny and rising client demands for data transparency make it a very bad time to have faulty data collection and management processes in the retirement business. No matter what the ultimate fate of the Department of Labor's fiduciary rule, transparency around fee schedules, performance and cost structures, and the need for real-time reporting have become the new industry norm.

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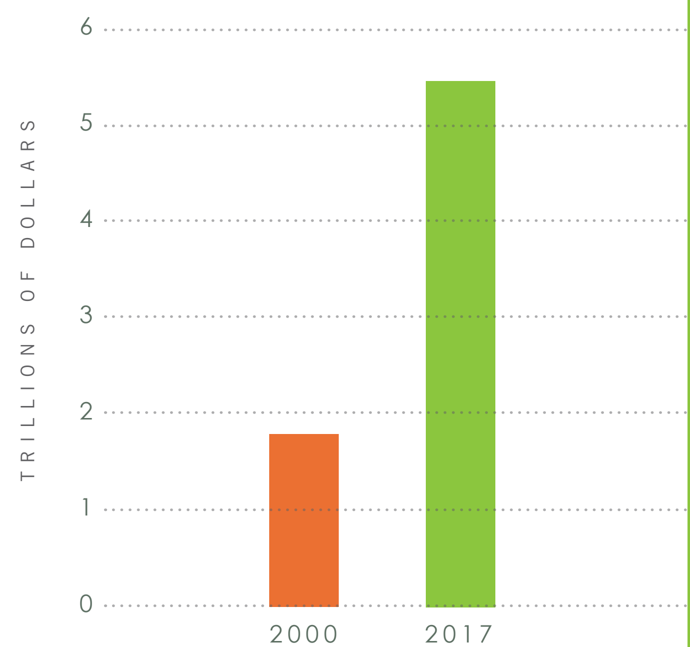
Total amount of assets held in U.S. 401(k) accounts



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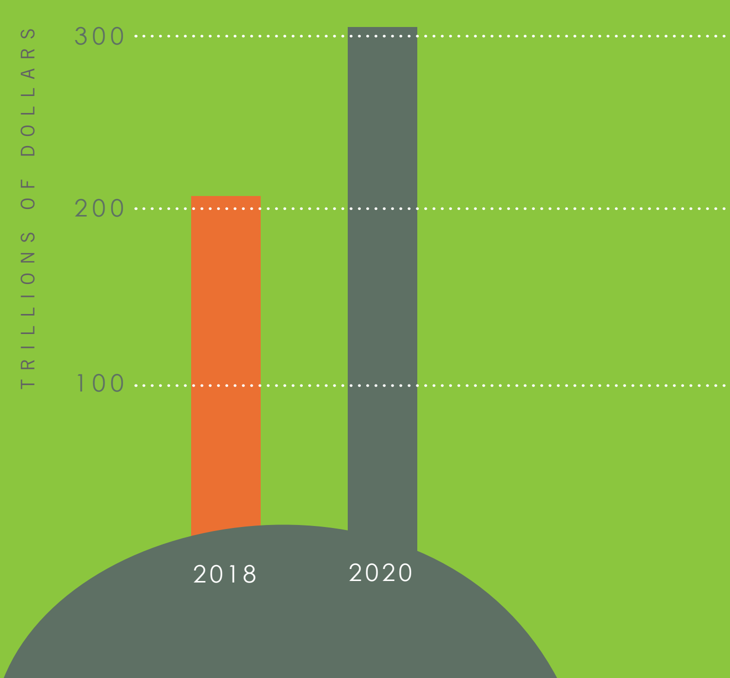
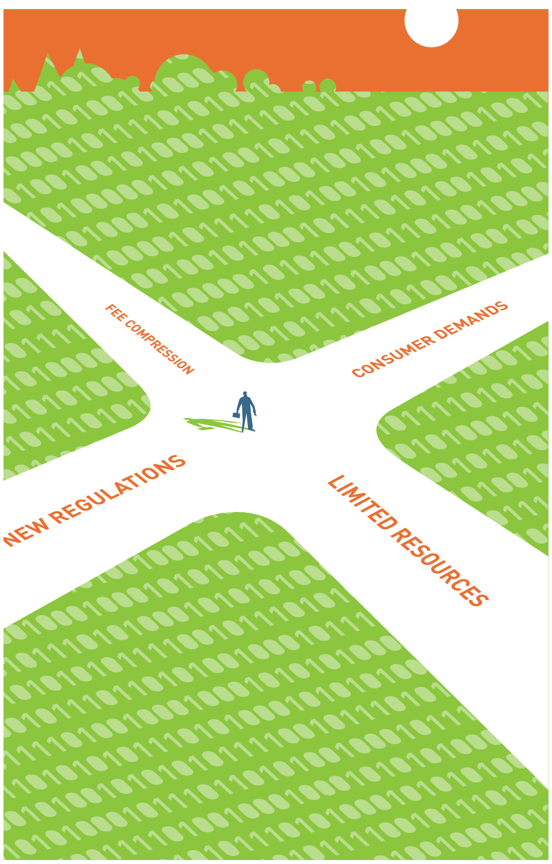


Retirement Providers at a Business and Billing Crossroads.

This information implosion has created constant pressure for retirement providers and 401(k) recordkeepers attempting to accurately track and effectively manage the billing process. Retirement providers are at a crossroads. On one hand, new regulations and consumer demands are placing greater pressure on recordkeepers to track and report on a greater amount of data at a faster speed and with more transparency. On the other, they're facing fee compression and have less resources to do it than ever before.



In this new business reality, recordkeepers need to tighten up their data and billing processes or they'll continue to fall behind or cease to exist all together. If it sounds bad, it is. The information implosion is negatively impacting recordkeepers in three critical areas whose importance can't be overstated.

Revenue

Simply put, recordkeepers are losing revenue because their shareholder service billing processes can't track data accurately or efficiently. The amount lost varies by firm, but a recent industry study revealed that retirement providers lose 11% of revenue on average due to billing and process errors. Making matters worse, fee pressure is shrinking the pool of revenue coming into the top of the funnel. In less than five years, recordkeeper fees have been slashed by 33% to $57 per participant and fixed fee arrangements now make up nearly 50% of all plans. So, at a time when revenue collection is more critical than ever, retirement providers are leaking valuable dollars that can mean the difference between operating at a profit or a loss.

Risk

The lack of standard fee tracking systems and processes is creating more risk for recordkeepers at a time when regulatory scrutiny and uncertainty has never been greater. One needn't look further than the court dockets to see the toll the increased risk is taking. In the last decade, more than 150 fiduciary-related class-action lawsuits have been filed against wealth managers worth billions of dollars. And yet they're no closer to solving or even having a firm handle on the problem. As a recent Plan Sponsor survey reveals, 33% of recordkeepers admit they're unsure how to approach the DOL rule in general. Billing transparency, trackability and accuracy are likely the most critical risk mitigation features a recordkeeper can achieve in today's landscape and yet they don't know how to get there.

Resources

Patched-together legacy accounting and recordkeeping systems require more cost and labor to support. These massive operational inefficiencies drain resources that could be more efficiently and cost-effectively deployed elsewhere. That lack of resources becomes more glaring when you consider that the recordkeeper's billing processes require more manual intervention than at any time in history. In fact, a study conducted by consulting firm BridgePoint Group LLC found that the recordkeeping billing processes have become highly intensive manual efforts that require more than 100 different steps on average. A large portion of these steps also require manual handoffs to other individuals to process, which slows down the process and adds to the potential for human error. Automating key parts of the billing process is a business imperative for retirement providers trying to do more with less resources.

The impact of the information implosion is real, it's tangible and it must be addressed for retirement providers to survive and thrive in today's landscape and beyond. It's time for them to control their own business destinies by attacking their pressures, building processes and leveraging technology in a strategic and systematic way.

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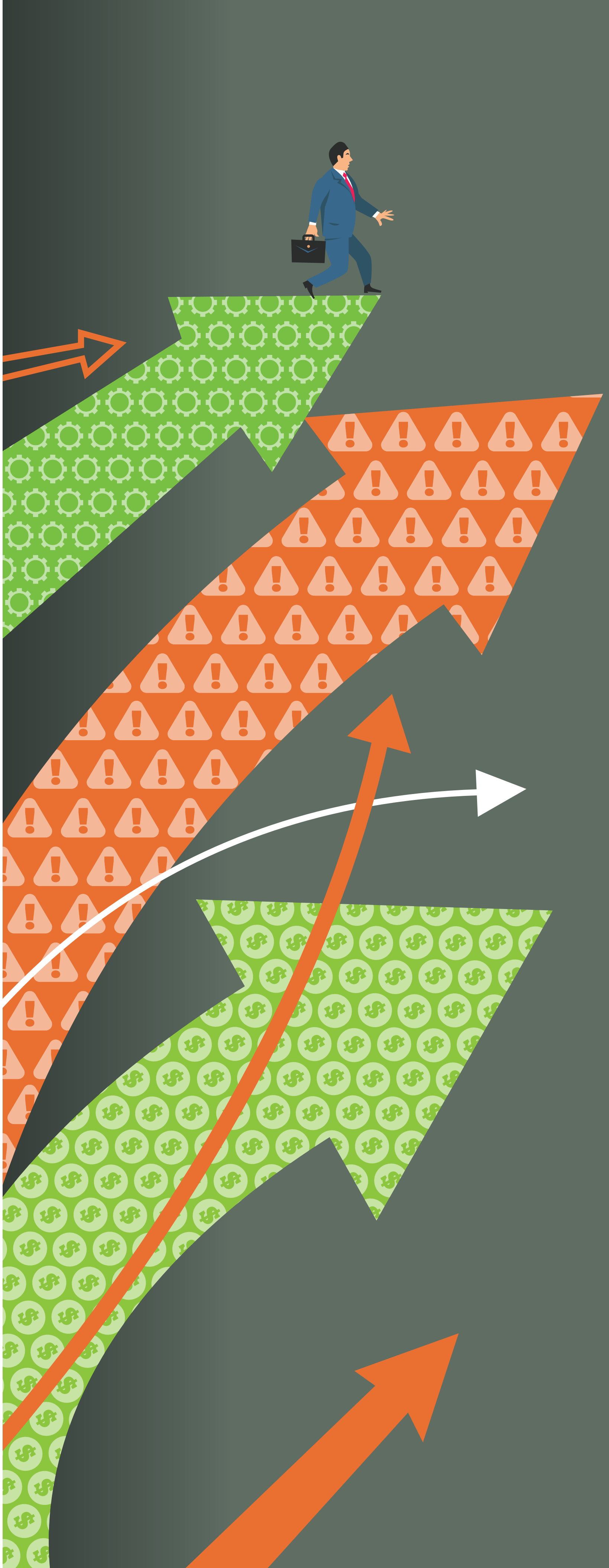


Optimizing Operations to Control Information

Staying ahead of the information implosion begins with optimizing recordkeeping operations. Retirement providers must look at key areas for improvement that will have both immediate and long-term impacts on their business. To truly achieve greater levels of transparency, accuracy and efficiency, there are three keys areas of improvement that must take place.

Process Optimization

Laying the foundation for future success begins with architecting efficient and repeatable processes. It's critical for recordkeepers to assess workflows and information flows, identify and eliminate areas of redundancy and begin building automation into their processes where possible. The shortest distant between two points is a straight line and outdated systems and processes create countless information twists and turns that recordkeepers simply can't recover from. It's time to take a look with fresh eyes and implement controls that streamline how information is collected, communicated and accounted for.

Systems Optimization

Redundant and incompatible legacy systems are the primary pressure point for recordkeepers trying to keep up with the information implosion. After years of consolidation, most recordkeepers are forced to deal with multiple systems and data formats that create gaps and inefficiencies where information is slowed down or lost altogether. Technology exists now to eliminate those gaps and streamline systems, but many recordkeepers are either too afraid or too busy to take advantage of it. The time is now to take a hard look at existing systems and do what it takes to make them more efficient, accurate and flexible. With more consolidation coming, the ability to adapt to new kinds of information standards, as well as the scalability to accommodate growth, is key. System optimization also should deliver more trackability and transparency to mitigate risk and drive better customer retention.

Resource Optimization

With less resources available, recordkeepers must get the most out of what they have and, perhaps more importantly, make sure they're deploying them in the right places. Freed from manual processes, retirement providers can eliminate inefficient resource deployment and reallocate their team's time and focus to more critical, client-facing functions. Optimizing resources will pay dividends in client relationships, in risk management and in revenue recognition, but recordkeepers must revamp their processes and systems to have the flexibility to better use their people.

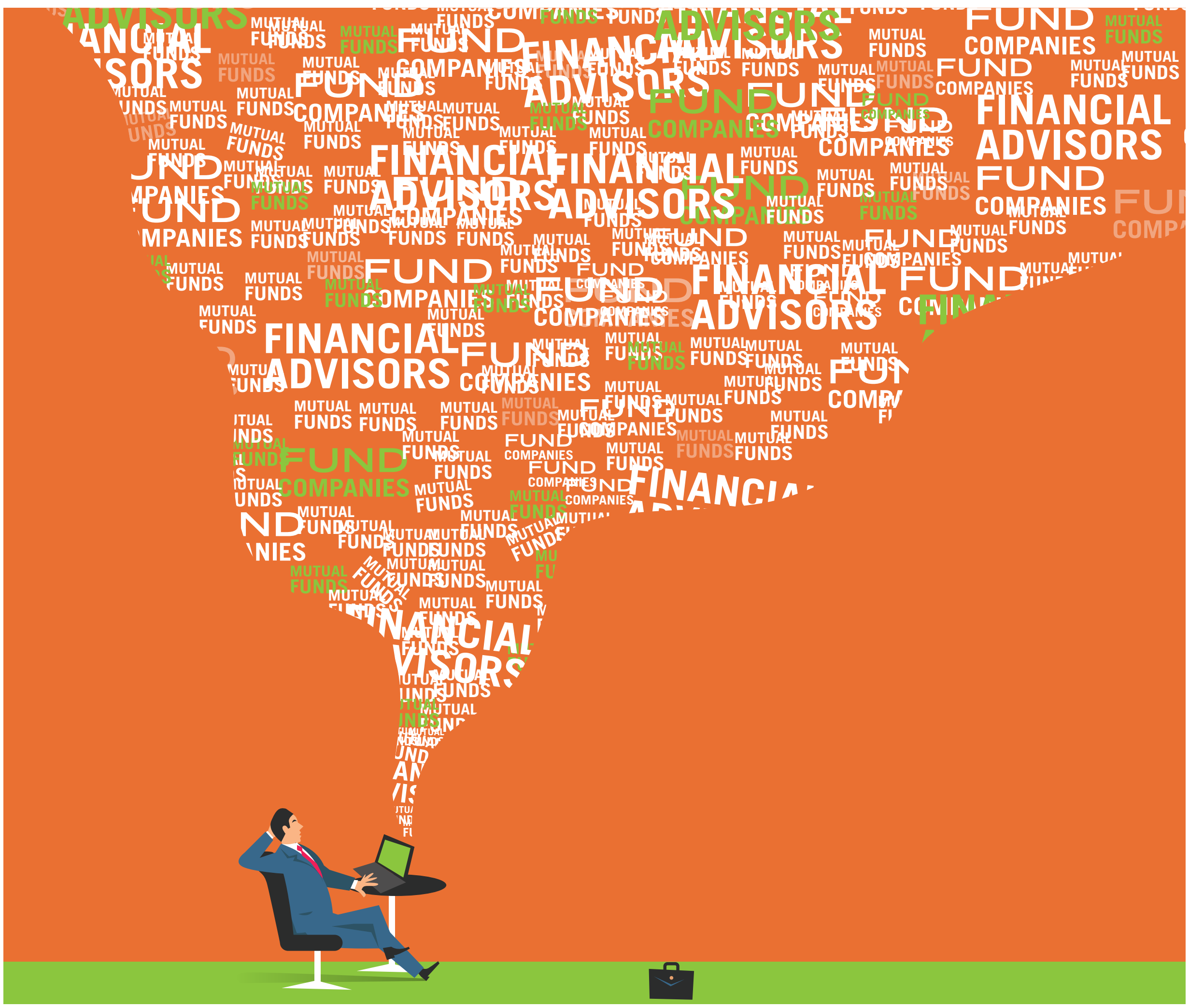
"After several acquisitions and a decade of asset accumulation, our billing procedures had turned into a time-intensive process requiring far too much manual effort," says Overby. "We worked with a number of key strategy and technology partners to optimize our processes and systems to meet our new operational reality. As a result, we significantly reduced the amount of manpower, number of systems, and the steps and costs required to create accurate and timely invoices. We reduced risk by creating new levels of transparency and shored up our bottom line by identifying and eliminating areas where revenue opportunities were being lost. It was a real win from a business standpoint."

Technology for the New Billing Dynamic

Outdated technology is at the heart of the problem in the era of information overload. It only stands to reason that the right technology can be the great equalizer to help retirement providers succeed in the new billing dynamic. But what should that technology look like and how should it be implemented?

Existing legacy systems were not built to accommodate the lack of standardization that exists across the hundreds of mutual fund companies that retirement providers interact with and pull information from. Unfortunately, most recordkeepers still rely on those systems to process their transactions and support their billing functions.

The ideal technology system for today's world is purpose-built to support the diverse data formats, transaction timing rules and billing requirements of a universe of more than 600 fund companies, 30,000 mutual funds and 200,000 financial advisors. It accounts for the fees owed by mutual funds to the plans and seamlessly integrates that data into the billing processes for plans and advisors. It provides the ability to automate key functions, eliminate redundant steps and systems and create the accurate and transparent tracking, billing and distribution of fund revenues demanded by regulators and investors in the current retirement environment.



From a billing standpoint, recordkeepers should expect more from their systems. In fact, they need more to keep up. They need a system that can:

Get Granular with Fee Management

A. FEE CALCULATIONS

Technology should allow recordkeepers to easily calculate participant fees, advisor fees, sponsor fees, recordkeeping fees and plan level fees, all at multiple frequencies. It should also accommodate tiered pricing structures and enable model fee processing. Ultimately, fees owed from the mutual funds to the plans must be accounted for and aligned with the invoice process to ensure accurate and timely billing across all phases and for all parties. Advisors must be able to bill fees against participant accounts, as well as enable the use of complex calculations to more effectively organize and keep track of all fees throughout the life of the account. These functions are no longer nice-to-haves, they're necessities in the new billing dynamic.

B. FEE MINIMUMS

It's important to have the ability to add minimums at a fee level and/or an aggregated level across the multiple fees attached to a retirement plan. Given timing and billing variances, another necessary feature is tracking minimums and dictating effective and reset dates along with adding a hierarchy for proration.

Maintain Maximum Payable/Receivable Party Oversight

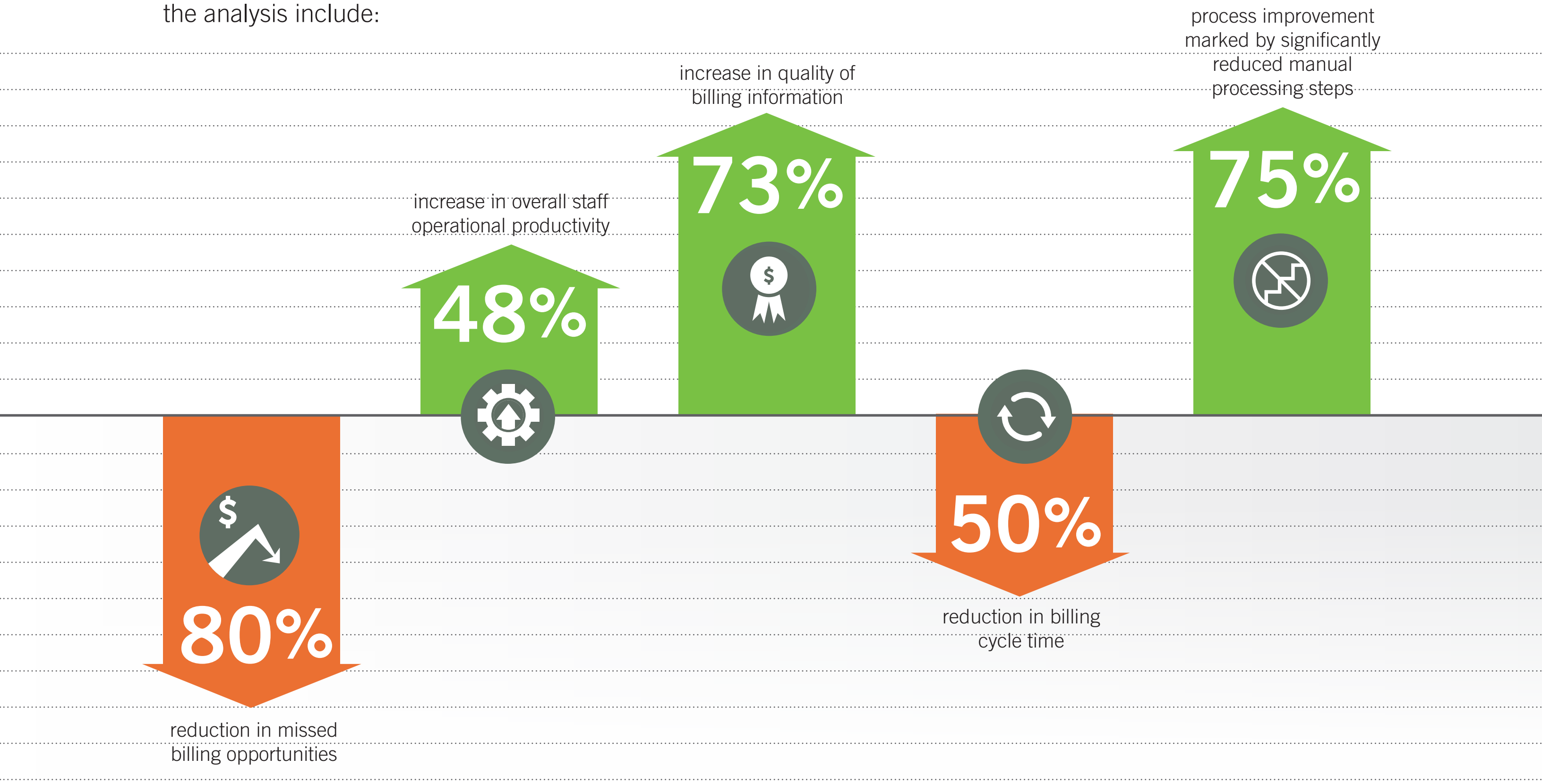
The number of parties being billed by plans and the number fees owed by the mutual fund companies are continually increasing. Recordkeepers must have the ability to add, maintain, and track multiple parties associated with the plan to stay on top of payable/receivable data. Tracking and allocating fees to specific parties is also crucial today. New technologies must be able to attach a payable/receivable party to each fee attached to the plan and dictate payments via check or ACH with ease. It's important to remember that bills don't exist in a vacuum. Firms must be able to produce financial reporting and performance metrics necessary to understand their business and achieve their operating goals.

Create New Levels of Invoice / Collection Flexibility & Trackability

There is no one-size-fits-all invoice. The right technology will allow recordkeepers to generate an invoice and send copies to external systems for delivery per party or per plan, all while tracking and monitoring changes to the general ledger in real time. Beyond that, it will support multiple invoice frequencies and generate invoices in advance and track and age receivables, providing complete transparency and oversight.

The Tangible Upside of Technology

Technologies exist that provide these key functions and they are making a real impact on retirement providers' businesses. When effectively implemented they create accurate, efficient and fully transparent billing processes that begin with the reconciliation of mutual fund fees and carry all the way through to invoicing and revenue recognition for the plans and advisors. An analysis of an implementation of such a technology from consulting firm BridgePoint Group LLC found that implementing a full scope of the billing and workflow technologies drives tangible business value. Specific benefits revealed in the analysis include:



Beyond the quantifiable process, revenue and resource improvements, the implementation created a level of trackability and transparency throughout the billing processes that significantly reduced the organization's risk. If the information implosion is putting pressure in the areas of revenue, risk and resources, new technology can be the relief valve. But organizations must be open to change and take the leap to make it a reality.

The Time is Now

Fee compression and transparency demands are here to stay. Investor and fund data is multiplying daily. The longer retirement providers wait, the more overwhelmed they will become by the information implosion and the less likely they will be to turn the tide. The time is now to leverage new technology. The time is now to achieve efficiency, accuracy and transparency. The time is now to turn the information implosion into a business advantage. Don't let time pass you by.

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