Software as a Service

Remaining Competitive

Fred Barstein, President and Founder 401k Exchange and contributing author for the National Association of Plan Advisors (NAPA) reported: *"The consensus among DC industry consultants, executives and experts is that record keeper consolidation will continue*, *driven by rising technology costs, lower fees and increased intellectual capital needed to remain competitive.* The prognosis is for fewer providers which will result in higher fees and worse service." [1]

City National Bank announced on June 25, 2014 that they entered into an agreement for OneAmerica to acquire City National Bank's San Diego-based retirement services recordkeeping business. JPMorgan Chase & Co. announced on April 3, 2014 that they have agreed *to* sell their 401(k) recordkeeping business to a division of Canadian life insurer Great-West Lifeco Inc.

On January 23, 2014 Verisight, Inc. a recognized leader in comprehensive retirement plan services and consulting solutions, announced the acquisition of DailyAccess Corporation. In 2013, Hartford Financial Service Group announced that it was selling its retirement business to Mass Mutual.

Declining Revenues

The 2013 NEPC Plan & Fee Study reported that the annual median fee for recordkeeping paid by Defined Contribution (DC) plans was $80 per plan participant, compared to $92 in 2012. In 2006 the first NEPC Plan & Fee Study reported that recordkeeping fees totaled $118 for each plan participant. This decrease in fees is a 32.2% decrease in income to DC recordkeeping companies in six years.[2]

Reducing Cost is a Necessary Step to Improve Profitability

"With the pressures of fee disclosure and other fee actions continuing to exert downward pressure on revenue in an extremely competitive business environment, many DC providers are looking to improve margins in part by cutting costs." [3]

"One of the important lessons we learned from our P2000 study … is that a key to long term profitability is to increase value and then revenue, while examining each cost element for ROI and potential reduction. That form of analysis is a major focus of our P2000 study; however, we understand that while revenues are not always in your control, costs are, and reducing costs can be a major step toward improving profitability. The issue for business managers is how to reduce costs in ways that will be beneficial to the bottom line, but will not hurt the franchise over the long term." [4]

The Solution is an Alternative Hosting Model

SunGard controls over seventy percent of the defined contribution (DC) record-keeping market. The SunGard systems, Relius and OmniPlus, are traditional software applications which are available either as application software or through an Application Service Provider (ASP) model.

Speaking at the 2013 SPARK National Conference, Greg Clark, Senior Vice President SunGard Wealth Management, commented, "SunGard, like the rest of the industry, has to do a better job at innovating.

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[1] Record Keeper Consolidation Will Continue, National Association of Plan Advisors, by Fred Barstein May 2014

[2] NEPC, LLC is one of the industry's largest independent, full-service investment consulting firms, serving 320 retainer clients with total assets over $809 billion. Headquartered in Boston, MA with offices throughout the United States.

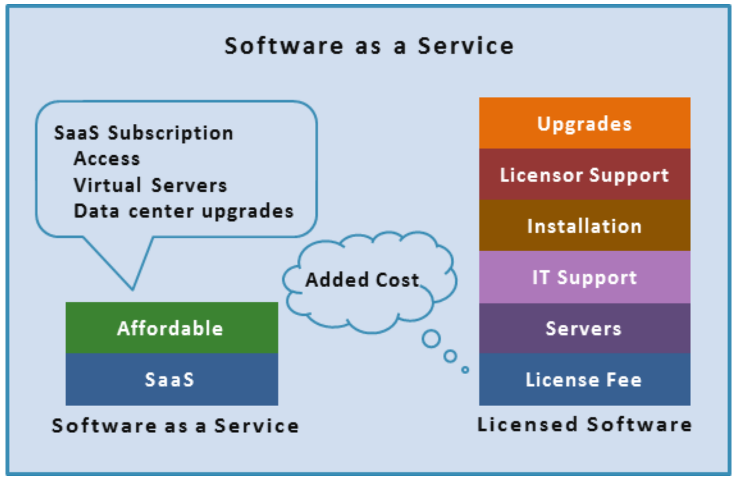
[3] Profit 2000-XP™, Sterling Resources DC Plan Provider Profitability Benchmarking Study 2012

[4] Ibid.

Currently, we're taking a hard look at our legacy systems." One answer Clark mentioned was to consider an alternative hosting model.[5]

Software as a Service (SaaS)

With the growing DC market skyrocketing to a record $6.5 trillion ending Sept 30, 2015[6] record keepers are begging for robust technology that will reduce costs. The answer lies in Software as a Service (SaaS) technology which is revolutionizing many industries.



Unlike licensed enterprise software, SaaS solutions eliminate large upfront and periodic fee spikes that can wreak havoc on corporate and IT budgets.[7] SaaS increases efficiencies while reducing costs by eliminating the need to purchase servers and software which require IT support, upgrades, data backup, data security, and disaster recovery.

The adoption of SaaS solutions has been growing at a rapid pace with global revenue from SaaS sales rising to $12 billion in 2011, an increase of more than 20 percent over the previous year.[8] Behind this rapid increase are CIOs, CFOs and CEOs who realize that by switching to SaaS, their businesses will enjoy lower costs, a quicker return on investment, and greater predictability in expenses.[9]

Multi-tenant Environment

SaaS applications are designed as a multi-tenant environment. Instead of deploying software on the client side, enhancements are implemented at the SaaS data center and made available to the entire user community which eliminates the need to perform upgrades at the client level.

SaaS systems can be configured so that each client has a custom experience, yet the code base is disparate and maintained for the benefit of all clients. These efficiencies drastically reduce the overall cost in delivering services.

Invest n Retire® SaaS cuts costs while increasing efficiency

Invest n Retire LLC delivers an innovative and robust record keeping and trading system through our Software as a Service hosting model. Operating in a virtual environment, record keepers may reduce their costs by 50% or more.

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5 Value: No. 1 Issue for Record Keepers, National Association of Plan Advisors, by John Ortman June 2013

6 ICI Research Report - Defined contribution assets skyrocket to record $6.5 trillion

7 IBM Chief Information Officer Study 2011

8 Forecast: *Software as a Service* All Regions 2010-2015 (Gartner 2011)

9 IBM Chief Information Officer Study 2011

Summary

Payment for Services

Service providers may be paid for services to a defined contribution plan either directly or indirectly. Direct compensation is when a provider is paid directly by the plan sponsor (company sponsoring the Plan) or paid by the plan participants (fee deducted from participant accounts).

The 401(k) industry refers to indirect compensation as revenue sharing. Rather than paying a service provider directly, the provider receives payment indirectly from the mutual fund company through the investment lineup.

Indirect compensation[10] is made more confusing since mutual fund companies use different terms to classify the type of payment. A mutual fund company may pay indirect compensation to an investment advisor as 12b-1 fees[11] or pay a record-keeper in the form of sub-transfer agency or shareholder servicing fees.[12] These fees can be difficult to find and understand even with the Department of Labor fee disclosure regulations.

Regulatory Change

Regulatory change certainly impacts a targeted industry dramatically. The release of the Department of Labor fiduciary rule on April 11, 2016 is beginning to impact the financial industry. The number one consensus among commentators and advisors is that advisors will abandon compensation for their advisory services through revenue sharing; including, commissions and 12b-1 fees. Advisors realize that the DOL favors fee-only compensation and the DOL's objective is to accomplish that goal.

Advisors will earnestly focus on offering clients lower cost investments; including, exchange traded funds (ETFs) in order to cost-effectively move to payment for their services on a fee basis instead of depending on revenue sharing. By switching their compensation to fee for services, advisors will easily comply with the DOL requirement for full fee disclosure and transparency.

About Invest n Retire, LLC

Invest n Retire, LLC is a technology company located in Portland, Ore. INR develops proprietary software for record keeping and trading in qualified tax-deferred retirement plans and taxable managed accounts. Darwin Abrahamson founded Invest n Retire® in 2004 with the objective to build a system which reduces costs while efficiently adding exchange traded funds (ETFs) as investment options in defined contribution plans (DC). INR's patented technology, *System and Method for Managing Tax-deferred Retirement Accounts,* (pat. US 8,060,428 and pat. US 8,639,604) solves a multitude of problems confronting the retirement and wealth management industries. Contact Darwin Abrahamson at darwin@investnretire.com or 503-217-2021 for more information.

Supplement

Investment Advisors Strive to Lower Costs

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[10] The birth of Indirect compensation: Financial services in the early '80s was commission driven and payment to advisors came from the fund company. While the industry squabbles over fee disclosure regulations, you may wonder why we still have mutual fund companies collecting fees for other service providers. With the inherent conflicts of interest rooted in indirect compensation arrangements, a better solution may be to abolish indirect compensation altogether.

[11] 12b-1 fees are paid by mutual fund companies to broker/dealers. Part of the fee is passed on to the financial advisor for services to the Plan; such as selection of the mutual funds, enrollment meetings, and investment education. Under the securities law, the technical purpose of 12b-1 fees is for the sale or distribution of mutual funds (marketing fee).

[12] Sub-transfer agency fees and shareholder servicing fees compensate the record-keeper for tracking share ownership at plan and participant account level and conveying information about the mutual fund to the plan participants.

Investment Advisors Strive to Lower Costs

IF YOU WANT SOMETHING NEW, YOU HAVE TO STOP DOING SOMETHING OLD.[13] –PETER DRUCKER

The Center for Retirement Research at Boston College revealed that the design and pricing of domestic equity mutual funds held in retirement accounts take a significant toll on the returns. "The design and pricing of mutual funds can cost the average participant 0.70% or more in annual returns. Most of this toll is attributed to trading costs, which can be reduced by shifting the investment options from mutual funds to exchange traded funds (ETFs)."[14]

Until Invest n Retire, LLC (INR) designed its patented record keeping system to trade ETFs in defined contribution (DC) plans, record keepers faced two hurdles which prevented them from adding ETFs in 401(k)s: ETFs trade like stocks intraday at market price and must be purchased and sold in whole shares.

To overcome these barriers, modern technology was needed to replace outdated record keeping systems built in the '80s which were designed to trade mutual funds in dollar certain orders at net asset value (NAV) closing price.

Advisors no longer need to wait to add ETFs in 401(k) plans when the record keeper uses INR's innovative record keeping and trading technology; enabling the record keeper to efficiently manage the trading requirements for ETFs.

Solving Problems

Fiduciary Responsibility. Hire an ERISA §3(38) investment manager who accepts the fiduciary responsibility and legal liability for selecting, managing, and monitoring the investments.

Model Portfolios. Offer participants professionally designed and managed model portfolios as qualified default investment alternatives (QDIA).

Automatic Enrollment. Automatic enrollment with automatic contribution escalation will increase participation and savings.[15]

Retirement Calculator. How much do I need to save? We designed our calculator with ease of use in mind; including, payroll integration to help participants answer this perplexing question.

About Invest n Retire®

Invest n Retire, LLC is a technology company located in Portland, Ore. We provide cutting-edge technology (pat US 8,060,428 and pat US 8,639,604) to record-keepers of defined contribution plans and investment managers who participate in our TandemModels® management program. Contact Darwin Abrahamson at darwin@investnretire.com or 503-217-2021.

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[13] **Inspired by Innovation**, the actions early adopters are taking in their DC plans, Aon Hewitt Feb 2015

[14] Fees and Trading Costs of Equity Mutual Funds in 401(k) Plans and Savings from ETFs, Center for Retirement Research at Boston College Nov 2009 Researchers: Richard Kopcke, Francis Vitagliano and Zhenya Karamcheva

[15] Auto enrollment in 401(k)s takes the guesswork out of retirement, USA Today Aug 2015