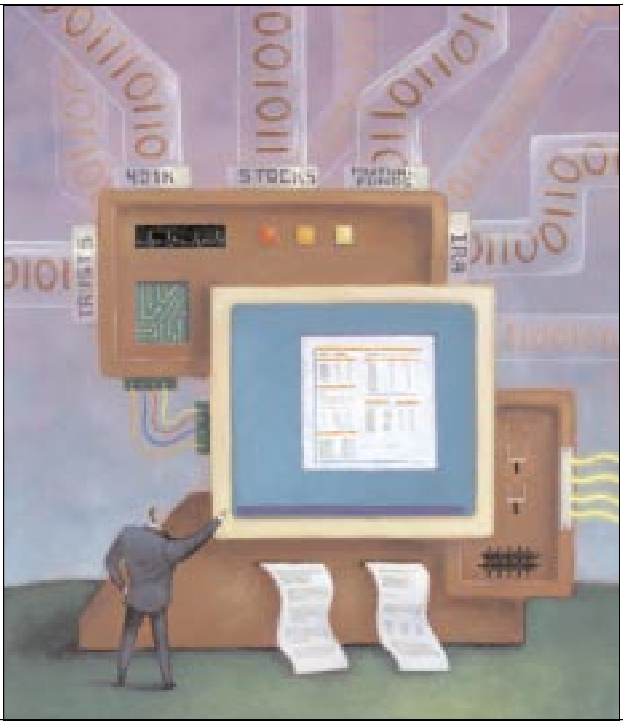
Is There Justification for Aggregation?



A Tool for Employers and Plan Sponsors

by Ward M. Harris, McHenry Consulting Group

The Value of Account Aggregation for the Affluent

by Dave Yonamine, Upstanding

As our financial lives become more complicated than ever, a new tool arrives on the scene that promises to eliminate clutter, free up our time, make data meaningful, and give consumers the chance to make better-informed decisions: account aggregation. Financial services providers are increasingly adding account aggregation to their offerings, but the public is moving more slowly in adopting this technology. Should those who offer wealth management services hurry or worry? >

A Tool for Employers and Plan Sponsors

BY WARD M. HARRIS

Wealth management consolidation tools can enable employers and benefit plan sponsors to help workers avoid mistakes in managing their investment-based benefits.

Every day, employers are faced with increased employee expectations, often in conflict with business goals and constraints. One such example is how to help workers truly understand a broad range of employment-related financial assets. Even more vexing is the question of how to discharge legal and moral obligations in this area at an acceptable cost. How can employers objectively communicate the opportunities and risks of holding too much employer stock in all its forms (retirement plans, deferred compensation plans, stock options, and stock purchase programs)? How can employers help employees understand their total compensation — often in light of competing job offers that include signing bonuses, stock option grants, and higher indicated compensation?

Living in the age of Enron and Global Crossing, many employers are faced with issues that impact their relations with valued employees. They are seeking solutions for needs that cover the range of such relationships.

The good news is that there are technology-based solutions that can address these corporate and personal needs. These can easily be added to existing corporate Internet/intranet sites and delivered using build, buy, and borrow solution models. One employer offering such a solution is Texas Instruments. We will take a look at this company's response to these needs later in this article.

What Employees Want and Need

Our financial lives have become significantly more complicated in recent years. Not too long ago, we could manage our financial affairs with a file organizer and a calculator.

With broadening stock ownership and the popularity of investment-based benefits (profit sharing/401(k) plans, stock option plans, deferred compensation arrangements), many working families are awash in account statements and multiple Internet-based service portals (together with multiple user names and passwords).

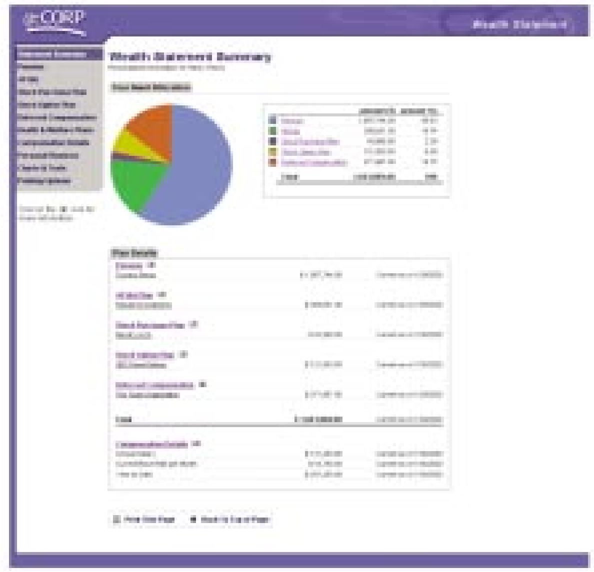
For two-worker and affluent families, the challenge is multiplied. Efforts required to monitor and adjust family investment policies and strategies can be daunting and inefficient.

In larger companies — those that use employer stock and equity compensation programs as part of a total benefits strategy — the greatest challenge for employers may be in keeping employees informed and helping them to answer some basic questions:

- How much do I really make?
- What have I got?
- How much of any one thing is too much (such as employer stock)?
- What should I do with it?
- Where can I get some help?

The Data Universe

Given that there is no shortage of data in the marketplace (and perhaps a significant oversupply), one of our greatest challenges is to understand what information is meaningful. These data aggregation products — particularly the high net worth and workplace tools — can help turn information into knowledge. With the help of trained advisors and supporting technologies that knowledge can then be brought to bear on a client's unique situation and needs, produc-



ing wisdom that can provide more consistent and appropriate results for them. Let's look at some of the best examples of these related but very different service segments.

Aggregation Basics

Data aggregation in the retail model represents the equivalent of an "electronic filing cabinet" for collection of a range of data in both numeric and textural formats. The quality and quantity of service providers in this segment may be of limited use in investment management activities. Retail service platforms provide access to data from accounts and such topics as the following:

- **Data aggregation.** Web sites and supporting services (the aggregator) enable the creation of a personal portal that automatically generates an online statement of account covering all such accounts and relationships. The two principal requirements for access to such efficient and often free services are:

  – The user's information must be available on a Web site and available for access by the user. This often requires the formal activation of Web services for an account, even when the account has previously been in existence.

  – The user must empower the aggregator to collect his or her data and provide the user name and password used for Web access to the information.

In creating the service account, the user creates his or her own account name and type, together with identifying the institutions with which there is a relationship. Several firms provide back room support for institutions that wish to offer aggregation services. Yodlee and Cash Edge are two such firms.

- Benefits of the retail model are speed, efficiency, and ease of use. Drawbacks can include data quality and timeliness issues and the need for users to manually establish their account profiles with the aggregation service, including sharing of user names and passwords.

- "Early adopter" employers are already actively pursuing solutions to their employee needs in this arena. As the concept becomes more popular, it appears likely that new offerings and channels of distribution will appear.

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In the Workplace

Individual investors selecting a retail or premium aggregation service do so on their own behalf and are free to do so unencumbered by things like the fiduciary standards placed upon employers and retirement plan sponsors. In fact, employers are subject to very high standards of performance as they relate to the selection and support of investment, administration, and related service for employee benefit plans.

In recent months retirement plan service providers have brought to market several "401(k) versions" of their retail data aggregation services. The earliest and most visible package is offered by Vanguard to its 13 million shareholders, including those within 401(k) plans its serves. The package is based upon data aggregation services from Cash Edge and includes investment advice from Financial Engines. In the retail version, Cash Edge also offers online bill payment as an added feature.

While some employers may see value in this configuration, early research suggests that many plan sponsors do not because of concerns about the need to force employees to divulge their personal account information (account user names and passwords) to a third party. Further, many employers have voiced a desire to provide not only data about employment-related investment accounts but also supporting content that helps employee/participants make decisions about work-related assets.

Examples of the types of benefits issues supported by such cross-vendor data hubs include the following:

- base salary;
- bonuses;
- defined benefit/defined contribution plans;
- 401(k);

- profit sharing;
- stock purchase;
- stock options;
- pensions;
- executive benefits;
- health and welfare plan detail;
- personal finances; and
- employee directed brokerage accounts.

Workplace Model #1

One solution in the marketplace is that offered by 401(k) service providers in conjunction with an outsourcing firm, such as the combined offering by Vanguard Group. In conjunction with Cash Edge, a data aggregation and electronic payments firm, Vanguard is offering account aggregation to all shareholders. Backed up by Financial Engines for investment advice support, Vanguard's package is the first integrated offering of its kind by a major retirement services provider. Fidelity and others have announced similar packages.

Workplace Model #2

Many employers — particularly larger ones — tend to acquire at least some of their services from diverse, specialized providers. For example, a firm may use different providers for 401(k), defined benefit, stock option, stock purchase, and executive compensation plan administration and service.

In response to this and other needs, firms have come to the marketplace with software and service packages that make possible a single view of all of an employee's benefits-related investment accounts. This is possible without the use of external Web sites or the sharing of personal information, such as user names and passwords. All data collection is accomplished "system to system" using institutional quality, industrial strength technologies and procedures.

One such solution is provided by ProAct Technologies Corporation. Originally a provider of human resources software and knowledge management systems for deployment on corporate intranet and Internet sites, ProAct's Wealth Statement™ provides even more functionality than even the best of retail aggregation offerings — for its intended use. Most recently, ProAct has added personal financial data aggregation as an option, in partnership with adhesion technologies — a second-generation aggregation technology firm.

Employer interest in this solution sprang from the needs of ProAct's human resources software clients who wanted to use compensation and employment-related investment data as a retention tool in meetings with employees considering offers from other employers. Using software tools to show total compensation and the value of unvested retirement and options that would be left behind as part of a job change, those managers were able to prove the true value of an employee's compensation and benefits package.

Employers carry a significant cost of producing, distributing, and supporting paper and online benefits booklets. Solutions like a "wealth statement" can drive down such costs and produce an attractive return on investment. This service model collects employee data from the service provider's administration system in a direct and secure connection (not the Web) and does so on a real-time basis. Other solutions may update data only upon demand or on a daily basis, if they can get the data at all.

Selected views of a workplace solution include the following options:

Employee Wealth Summary

Totals of all employee benefits accounts and all sources of compensation. Single view (see image, page 25) of what one has and where it came from, such as:

- sources of compensation, including base, bonus, profit sharing, and other earnings;
- pension plan;
- 401(k) plan;
- stock purchase plan;
- stock option plan;
- deferred compensation plan;
- links to other screens; and
- links to service providers for each plan.

Pension Screen

Usable information about an often-misunderstood benefit. Provides data about the following:

- total accrued benefit by plan type;
- projected benefits at retirement; and
- accrued Social Security benefit at retirement.

401(k) Screens

Multiple views of data and content explain details about the retirement savings plan. Other views in addition to the summary screen include:

- contribution and balance detail;
- periodic and annualized rates of return;
- detailed explanations and links to other resources; and
- link to the administrator's Web site and to customized content.

Stock Purchase Screens

Document and detail employee purchase of employer stock. Screens include such information as:

- shares held;
- holding period;
- original cost;
- current stock price and account market value; and
- link to the broker/administrator's Web site.

Stock Option Screens

Document and detail employee stock option programs (see example on page 26). Screens include the following information:

- current portfolio value;
- options granted;
- options exercised;
- vesting schedule;
- option grant history;
- modeling and planning tools; and
- link to broker/administrator's Web site.

Deferred Compensation Screens

Document and detail employee deferred compensation and executive compensation plans (see example at right). Screens include such information as:

- deferral amounts;
- assets held;
- savings by fund;
- total plan values;
- current investment elections; and
- link to plan administrator.

Personal Assets

As in retail aggregation services, the institutional, workplace version (if the employer enables this feature) can support collection of personal information (see example on page 28). Screens include information about:

- bank accounts;
- investment accounts;
- credit cards;
- other assets; and
- hypothetical assets, such as a model portfolio.

The Returns

Benefits of workplace aggregation services accrue quickly at three levels:

- **Employer** — Reduced costs of employee relationship management, including printing and distribution. Also enables managers to effectively coach and retain valuable employees, using compensation and benefit data to prove the real value to employees.

- **Plan** — Enhanced utilization and appreciation of plan features and benefits, including targeted information about how to make best use of plan resources.

- **Employee/participant** — Better information that produces knowledge to make decisions, producing results that meet their needs.

In the case of Texas Instruments (TI), that employer was able to implement a single, intranet-based wealth site with one point of entry and one password. There was no need to collect employees' user names and passwords from other sites because all of the benefits-related data aggregation was completed using direct data feeds from the respective external plan service providers.

TI has more than 25,000 U.S. employees. Their data aggregation solution, branded "My Financial Statement," provides employees with an easy-to-use, personalized financial management tool with modeling capabilities, allowing them to create "what if" scenarios to meet their changing needs and to respond to challenging market conditions.

Trends

Some employers may be challenged by access to or the cost of some aggregation solutions as described above. Others may not be comfortable with selecting or offering

services that touch upon employees' personal assets, such as the Vanguard/Cash Edge package through its 401(k) service relationship. These employers may simply wish to educate themselves and their employees about the risks and advantages of retail aggregation services and let their workers select their own solutions in the marketplace.

For employers who wish to realize the full benefits of active compensation and benefits management with an eye to employee retention and appreciation of the value of their retirement benefits, the institutional approach is gaining ground. Witness the TI experience, providing a solution for both employer and employee — delivering cross-platform and cross-plan data and content without surrender of the employees' personal user names and passwords.

There are two key questions for employers when addressing the business needs for workplace aggregation: Who do I trust and what is my return on investment (ROI)? Neither question is simple, nor are the answers clear, but there are some basic indicators.

The trust issue is being addressed through the use of stable, industrial strength data conduits between institutions. In the workplace, employers (and the financial institutions that support them) are voting for more robust but efficient solutions.

As to the cost/benefit issue, our firm's consulting efforts have provided ROI data showing clients to reap significant and early returns from the adoption of single-source data portals for employee compensation and account information.

Accountability

For all the service, security, and benefits available to all stakeholders in the use of workplace data aggregation, there is a larger issue — that of risk management. For both employer securities and employment-related investment accounts (401(k), deferred compensation, etc.) the tools and information available through the services discussed can help employers discharge their legal and ethical obligations to help employees understand and manage their risks. This is particularly true in the area of diversification and investment risk management. In delivering information, content, and decision-support services, employers can reduce their risk of not providing important support to employees. Congress will provide the motivation; the industry will provide the solutions.

The one thing we have learned from the Enron dustup is that we will all be accountable at some point. Workplace data aggregation can help.

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