Algorithms and Auto 'Outcomes'

OUR CONVERSATION WITH Brad Arends started strong. We thought he'd hit upon the retirement plan "Holy Grail," which in this case was the algorithm-based software he uses to specifically measure and benchmark positive participant outcomes.

Our excitement was somewhat tempered by Arends' (thankfully) low-key and level-headed explanation of the product and process, but it's nonetheless making a major impact on the sponsors and participants with whom his firm, Minnesota-based intellicents, works.

"We put every retirement plan client that we have through this algorithm," Arends says, before rhetorically asking, "Did we invent it? No. We've licensed a piece of software that, if we can get a download of participant data from the recordkeeper, it goes in with a set of assumptions that will calculate, for each participant, whether or not they're on track to be retirement-ready."

Being retirement ready, he simply states, is defined as maintaining the same standard of living during their retirement years as they're accustomed to during their working career.

"The software doesn't just say, 'Everybody needs to replace 75 percent of their income.' What it does is make projections based upon how much money the people earn."

He emphasizes that it currently only analyzes plan data and doesn't consider outside assets in calculating the initial retirement readiness report.

However, it then provides participants a website link where they can enter any outside assets, like their spouse's retirement plan, outside 401(k) plans that haven't been rolled over, "and all that kind of stuff."

"It produces an individual report for every participant which we give them every year. The most valuable thing it creates is an aggregate report for the plan sponsor that looks at their workforce as a whole and indicates the percentage of employees that are on track," Arends says.

"I've had clients for 25 years and it's not unusual for them to say, 'Brad, this report is the best thing you've ever done for us.'"

One such client, Vermeer Manufacturing in Pella, Iowa, a heavy manufacturer with 3,000 employees, has received national recognition for their focus on outcomes.

In 2011, only 19 percent of their employees were on track to maintain their same standard of living at retirement, even though they had an 87 percent participation rate.

"We went to them and said, 'Although you've got great participation and your asset allocation is good, we're concerned that employees aren't contributing enough to actually retire,'" Arends says.

Arends, his brother and business partner Grant, and intellicents did a study using that piece of software, and it came back at that 19 percent.

"We took it back and they looked at it and said, 'That's not the kind of employer we want to be.' It's a very parental, family owned business that's in the third generation right now," Arends says. "They wanted solutions, so we 'auto-ed' everything, and we even built custom target date funds for them out of their core menu because they hated target date funds, and thought they were just adding more funds to an already big menu."

Today, almost 60 percent of their employees are on track, and they have consequently been recognized by the White House Council on Aging for their efforts.

"I've had clients for 25 years and it's not unusual for them to say, 'Brad, this report is the best thing you've ever done for us.'"

Brad Arends is co-founder and CEO of Albert Lea, Minnesota-based intellicents. Grant Arends is co-founder and president of retirement services for the firm.