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EXPERT INTERVIEW

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TEAM

Jan-Erik Asplund
Co-Founder
jan@sacra.com

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By **Walter Chen**

Background

Kevin Busque and Steven Wu are the CEO and CFO of Guideline. We talked to Kevin and Steven about the role that 401(k) providers like Guideline play in the growing app store ecosystem of payroll providers, the business models of 401(k) plan providers like Fidelity and ADP vs. the emerging models of companies like Guideline and Human Interest, and what Kevin brought to Guideline and learned from his experience founding TaskRabbit.

Interview

Kevin, you previously co-founded TaskRabbit. Can you talk about your experience founding a seminal gig economy company and how that inspired you to start Guideline?

In 2008, I co-founded TaskRabbit, which was initially called RunMyErrand. I was in charge of the technology side as well as HR, which was random, but apparently, I had a knack for it.

Building the company was challenging from a technology perspective, and the talent war from 2008 to 2014 was crazy. We were located in downtown San Francisco in the SOMA neighborhood, and keeping people happy was a significant challenge.

Back then, company culture revolved around ping pong tables, bars, and other “perks”. As a more practical type of guy, I wanted to offer meaningful benefits. We had many early employees in their 20s, fresh out of school, who were excited to work for a Silicon Valley startup like TaskRabbit. I wanted to provide real benefits and a 401(k).

When we were hiring VPs and other staff at TaskRabbit, we were stuck with ADP and Sequoia Benefits, which weren't well-suited for our younger employees. Everything was on paper. Most people ended up not participating in the 401(k) because of that.

I learned from my experience at TaskRabbit that what really matters long term and creates loyalty is not “perks” but rather meaningful benefits. Providing a fun culture can work in the short term, but after a few months, employees may realize that the work isn't for them and leave. It's important to help people understand what's real and what matters in the long run.

In 2015, I founded Guideline to address the benefits problem that had been a constant challenge throughout my time at TaskRabbit. I wanted a digital-first product that was simple to use, had an easily understandable investment philosophy, and was transparent.

When I couldn't find the product I wanted, my two friends, Mike and Cabs, and I decided to build it ourselves. Our motto at Guideline is to do the hard things first. We started by building a recordkeeping system, which gave us a huge advantage over the years.

Can you talk about the 401(k) space before Guideline and draw a distinction between 401(k) space after Guideline?

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What made the 401(k) space an attractive market to operate in as an entrepreneur?
Before Guideline, you're talking about an ecosystem that was completely focused on assets under management. If you didn't have accumulated retirement savings or wealth, larger companies couldn't monetize you. They didn't know how to deliver software. They didn't understand SaaS in a financial setting.

Their focus was on assets, but small businesses often didn't have assets because they never had the opportunity to start a 401(k). The existing legacy ecosystem consisted of several core players like Ascensus and Matrix that everybody used. Then there are the 3(16) plan administrators on top of that, as well as 3(38) fund administrators. It's a system full of middlemen.

With Guideline, our aim was to wipe out the entire infrastructure and do everything ourselves, eliminating the need for middlemen. We handle everything from recordkeeping to compliance testing. We were the first to do this and remain the only ones doing it correctly and at scale. We have approximately 40,000 customers on our platform, and we've been filing the required forms since year one.

As expected, competitors have emerged to imitate our approach, but we have a significant advantage in technology. We are a software company through and through, founded by engineers and product visionaries. Guideline services small businesses, with 92% of our clients having never had a 401(k) before. These businesses, mostly Main Street America businesses, have been largely ignored by companies like Fidelity and John Hancock because they couldn't monetize them. We charge our clients a recurring subscription fee rather than an asset-based fee, allowing us to change the business model for an entire industry through our technology.

Guideline charges employees a 0.08% fee on assets and charges companies $49-$129 per month. Can you break that down to how it compares with the legacy players?

We derive the majority of our revenue from SaaS-based fees, charging per user of our product rather than per employee. For example, if a 20-person company has 15 participants, we charge for the 15 participants, not for all 20 employees.

Our plan-based fee depends on the specific feature set of a plan. Traditionally, the industry relies on asset-based fees, which can be significant and more expensive than what Guideline charges in total.

The industry average fee is around 1.5%, while we charge only 0.08%. That 1.5% average is predatory when you consider that the purpose of a retirement program is to have more money at the end of a 25-year period, not to make those processing the plan wealthy over 20 years by charging an annual fee that provides little to no value. It's difficult to justify charging 1.5% annually for a 401(k) plan that should be left alone to grow. The middlemen in the industry simply collect fees for 20 years while people try to retire.

The difference between our approach and the industry average really matters. Starting early is crucial, and the benefits of compounding grow dramatically over time. It's important to focus on the original purpose of the product, which seems to have been forgotten along the way.

We started charging the eight basis point fee to cover all the transaction fees on the platform, ensuring customers wouldn't have to pay additional fees when accessing their funds. Since we aren't legally allowed or structured to be both a custodian and a record keeper, we partner with a custodian where the assets are held. While the custodian charges transaction fees, we cover them with our eight basis point fee. This isn't a profit-generating move; it's about doing right by our customers. Philosophically, I'm against asset-based fees—but we implemented this to better serve our clients during challenging times. 95% of our revenue comes from subscriptions, while 5% is generated through assets under management (AUM).

It's also important to consider who pays for these services. In our case, the employer pays the $49 and $8 per month on a per participant per month (PEPM) basis. In traditional 401(k) plans, such as those offered by BlackRock or Fidelity, the saver pays 1.5% in fees. This doesn't benefit the person trying to save money.

The 1.5% fee in traditional plans is attributed to the middlemen providing services. On top of that, savers have to pay expense ratios for the mutual funds they choose. We've partnered with

Vanguard to offer a simple and cost-effective fund menu that minimizes expense ratios for savers as well.

What was Guideline's initial product-market fit and how did you acquire your first 100 customers?

We were fortunate enough to get product-market fit right out of the gate, which was a super lucky position to be in.

Initially, our product was even more simplistic than it is now. We essentially had one plan that cost $8 per person per month, with no bank fees, AUM, or anything else. This made it very easy to sell, and I did a fair amount of educating business owners myself. Even though I'm not a salesperson, we were able to get our first 100 clients just through my personal network of contacts that I had met along the journey. I talked to some VCs who liked the plan and wanted to be clients themselves.

One of the interesting things about Guideline is that if you understand asset-based fees, you know that the more wealth you have and the more money you put into your 401(k), the larger the fee structure you end up paying. The early VCs and companies like Plaid understood this and became some of our earliest clients. Plaid was actually our second client, while Guideline was our first client, which allowed us to eat our own dog food and build a good base for the first year or two.

We started slow, with less than 300 total customers in 2016. But now we can sign 500 customers in a day. It's completely changed in terms of scale, but that first 100 was tricky. I even rolled over my pension from IBM into Guideline, which was my largest account on the platform at $90K. It wasn't a lot, and we had to play up the marketing angle that we had hundreds of thousands of dollars in AUM, but really it was just $90,000 of mine and $10,000 of Cabs' to get to that first 100.

Now, we have over $8 billion on the platform, which is significant. We've been able to achieve this growth by being open and transparent about our product and business model. I don't believe in being secretive and going into stealth mode. Instead, I tell everybody everything, and it's really been about word of mouth and educating people about what an asset-based fee means for their outcomes. I truly believe that we have the best product and business model in this industry.

Guideline partners with payroll platforms like Rippling and Gusto to power integrated 401k offerings. Are payroll partnerships the primary way that Guideline acquires customers? What does it take to be a preferred provider? What stops Rippling and Gusto from offering their own solutions?

Payroll partners are an important and significant part of our channel distribution strategy at Guideline, and they are the largest partners in our channel methodology. They are essential because managing a 401(k) plan is incredibly data-intensive. Clean data is crucial, and we can get clean data from a pay stub—that's where payroll partners come in.

From day one, I had conversations with the folks over at Gusto, explaining what I wanted to do and how I wanted to do it. We discussed co-developing APIs and sharing data to ensure that we had everything we needed to make it work. The same thing happened with Intuit, Rippling, and others.

Partnering with Guideline is great for these payroll companies because we don't have middlemen, and we can handle payroll reversals, which involves reversing buy orders for 401(k) plans. This is essential because 401(k) plans are super complicated, and dealing with people's money requires expertise and experience. We are the only ones who can handle this process, and that's how we become a preferred partner. By alleviating these pain points for payroll companies, we can ensure our stickiness, which is insanely high. Our annual logo churn on a voluntary basis is only slightly north of 1%, which is incredible.

When a payroll company attaches a 401(k) plan to their service, it significantly increases the LTV of the customer as well as the PEPM and retention rate.

Honestly, if I had known how complex this business would be, I would never have started it. Guideline is subject to intense regulatory oversight from the IRS, the Department of Labor, and the SEC. We are an RIA, which stands for a registered investment advisor, and we need to be registered to do this product well. Fundamentally becoming an RIA for a payroll company is not going to happen because it involves a complete change of business model and regulatory footprint that would be too challenging to undertake when they are already getting 100% margin business by partnering with us. Our customers are typically some of the best customers at our partners. These are companies that are likely to survive a downturn and are interested in offering a 401(k) product. If you're a seasonal restaurant or something similar, you may not offer it, but if you're an accounting, law firm, dentist, or optometrist located on Main Street, you'll likely be there for the next 30 years because you've been there for the past 30.

All of the payroll companies we partner with see the value we provide because our services help them not only acquire new customers, but also increase the employee per month attach rate and ARPU. It is truly a win-win for both us and our payroll ecosystem.

Once a business chooses a provider, the product is sticky and churn is low. Can you talk about the retention dynamics, what if any breakpoints there are where it’s natural for a company to switch providers and how Guideline thinks about winning business away from other providers?

When I first started at this company, state programs weren't a thing, and there was no penalty. Consideration for a 401(k) benefit was always number two next to healthcare. But now, consideration has changed because of state programs, specifically in California, where you are mandated to get a program. For some businesses, like dentist's offices, consideration is day one. They already know the vehicle exists, and they know it's in their advantage. But for other businesses, it's a natural progression where they get to a certain level where they have to offer a 401(k).

Consideration has moved up since I started this company, mainly because of the hiring ecosystem, employment rates, and trying to get good staff. You have to have good benefits, and that's great for us. For a company like ours and being our own record keeper, there's no feature we can't have. We have them all, and we can control the financial reporting and all of that stuff. We have companies that are one person and companies that are 2,000 people.

We're never going to compete for Google's or IBM's 401(k), so for us, it's really about focusing on the small business, which is

honestly one to 2,000.
The most common reason companies leave Guideline is that they're being acquired or going out of business. That's the majority of the reason somebody would leave.

The end-user employees of 401(k) products may not always have control over the choice of retirement plan. Can you elaborate on this point, specifically regarding how you aid employees while recognizing that the ultimate decision-making power may not rest with them? Can individual employees have a meaningful say in selecting the 401(k) program?

To start, I can tell you a little bit about the buyer persona.

A lot of the people we sell to are already educated, likely small business owners themselves, and probably the wealthiest person in their company. They understand how asset-based fees work. If they're one of 10 people participating, and they make $200,000 a year, that is different. They're putting away $22,000 a year and paying 2% on that, or 0.08% on that. It's front and center in their minds, and people are educated and understand that.

The other persona is where I'm at. I truly believe that adding this benefit's purpose is to help people save for retirement and give them a better retirement. So, for me to pay $8 per person per month on that is just a no-brainer. I pay more for coffee, even with just half the staff in the office. The bill for my Hint water is more than it is for my retirement program—it's a no-brainer.

As we go upmarket, you talk to the VP of Finance or the HR lead. I would say that once you have 50 employees, they're the owner. But in the example you mentioned, the dentist with the front desk person and a few hygienists, they're making the decision for themselves and then for the broader other 10 people in their workforce as well.

Regarding the network effect of Guideline, we absolutely see it now, and it's really interesting. 50% of our business is in some professional service—tech, law, medicine, IT. They're educated people, and they know that going from a Guideline plan to an ADP plan or something like that will mean paying upwards of 2%, and that's a non-starter for them.

They absolutely will be vocal about that to HR, which is super interesting for us. But we see a ton of Guideline to Guideline rollovers, and that's the cool thing about our product, too, being the record keeper. There's almost an instantaneous transfer between two trust accounts and the record keeper. So you can roll over your Guideline 401(k) to another Guideline 401(k) in a minute. It's super fast.

That's really nice as far as portability of benefits and keeping things on the straight path and the same investment philosophy. You don't have to re-pick your fund menu or your strategy or anything like that. You can do the same thing with our IRA product, by the way. So that's really interesting as far as just pure benefits portability and retirement, which is a unique offering for Guideline.

But yes—we see this effect all the time. The one thing I would say are plan conversions. So 401(k)s that exist and want to move over to Guideline because of the servicing element or something, those are still really hard because we have to get all the data from these antiquated record keepers, and quite honestly, the data's not up to snuff most of the time.

That can be a long process. Unfortunately, we're not in control of it. It's really about the source of that data. So that can be tricky. When that engineer does go over to another startup and they're on some other program that isn't as good, it can take a serious amount of time, six months easily. So that's not great. I wish it could be simpler, but we're not in control of it.

The other thing I would add is if you're the hygienist and you leave that dentist's office you work at, you can either keep your 401(k) at Guideline and still pay us a dismissed participant fee, or you can roll it over to an IRA. You don't need to roll it over to the new dentist's 401(k), especially if the fees are so much higher, or that person can advocate for Guideline as a lead.

That's the network effect from a lot of these dismissed billable participants, which is a lot better than if you're just a payroll company. If you're a payroll company, that person that leaves company X goes to company Y, they're on that new company Y's payroll. Here, there's some extension of new products. We do have an IRA product and a SEP IRA product as well that's directly helping the savers.

The cool thing there is, say you're in a pre-tax portfolio, you can send it over to a Guideline IRA, and then when you do find a new job and they have a Guideline 401(k), you can bring it back, which is great. So you can take it. As long as it's pre-tax, you just send it, put it right back in your 401(k), let the company pay for it, continue on your path, and that's a great thing.

From a buyer perspective, how do you position yourself in a space now with companies like Human Interest and InvestWell?

I think ease of use is the biggest factor. We do all the hard things—for example, with Form 5500 filing, once you start diving into the differences in the platform and what's included versus what's not, we typically win.

We've also been around and at scale for quite a bit longer. We have approximately 40,000 customers and are approaching $100M annual recurring revenue this year. They have maybe 10,000 or so. We do all our compliance testing in real-time, and we have a predictive algorithm to alert plan sponsors of any pending failures etc.

Compliance testing is a big thing for small businesses because it costs a lot of money if you don't pass compliance testing—knowing if you're going to fall out of compliance is really important. We run compliance when you run payroll, and we can tell moving into the latter half of the year if you're going to make it or not, and we'll let you know the things that you can do to mitigate it.

Can you talk about the decision to offer products to businesses and individual savers all in one? Along with that, can you talk about the importance of building a consumer brand in 401(k) that people can recognize?

The main way that we sell is through businesses, and that's just the way the US government wants it to be, right? It's capitalism in its purest form. They want you working for a company. If you do, you get access to this great investment vehicle.

The 401(k) would be great if you could get it without a company, but you can't—you're stuck with an IRA, which has super low contribution rates and is hindered by a bunch of other things, like you can't take loans from it, all that stuff. They want you in a 401(k). In the end, though, our product is for the individual investor, it's for you. And that's where that asset-based fee comes into play. So if we stay focused on that end investor, that end user, the rest of it takes care of itself.

The small business owner and decision-maker is also a participant in that plan. They're in it too. So we like that ecosystem—it’s our win-win, right? Adding the IRA is just for that individual that may change jobs. But less than 2% of all tax returns in the country have a direct contribution to an IRA. An IRA is a catchall bucket for old 401(k)s. We needed that vehicle for exactly that reason, to give it a holding pad, keep it invested in the market, keep it in the same investment philosophy until you get a new job.

Building a brand is tricky, and it's one of the things that I'm most involved in to make sure that our brand shows up the way it should.

We’re dealing with retirement assets. We don't want to be considered just another Silicon Valley startup that may go bust. We're structured completely differently than every other 401(k) company out there. We do things differently. We want to be profitable. We can do that in a matter of months, we can be cash flow positive super fast.

We’re structured in a really good, resilient way, and that's been important. It's important for the brand. It's important to be outside of that Silicon Valley bubble. We have customers in every state, in every SIC code across the board. That's really important.

Can you just talk about your vision of going upmarket, getting into bigger companies, and then where do you see opportunities for adjacent expansion for Guideline?

We're interested in IRA, SEP, and HSA. Healthcare or related expenses is the number two reason for not having enough money in retirement. HSA is interesting, but it's relatively small, and there's a lot of fragmentation in the market with low margins. Adjacencies in wealth management, retirement events, estate planning, and helping people plan for retirement so people don't blow it all on a Ferrari also make sense for

Guideline. However, we're going to stay focused on the 401(k) for now since it's so large in the United States and underserved.

In five years, if everything goes right for Guideline, what does it become and how has the world changed as a result?

In five years, I hope we're a public company.

Product-wise, I want Guideline to be the default 401(k) for every business. We want to be the best choice for participants, and that's our focus as a company.

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