EPISODE 1664

[00:00:00]

FT: So Money episode 1664, retirement strategies for mom-and-pops, with Jean Smart, Founder of Penelope.

> *"**JS:** When they left, they thought it would be too stressful to come all the way over to a different country with the language they studied but didn't really practice and with three little kids under five. So we stayed with our grandparents. Koreans are – they're not the best as being very direct and honest about certain things, and so they didn't really share with us, and we were so little. I had tons of relatives at home at my grandparents' house at that time, and my parents had these huge luggages, and they were ready to go to the airport. I woke up in the middle of the night, and I walked out, and I'm like, 'What's happening?' My mom said, 'We're going shopping. We're going **[inaudible 00:01:18]** bags. We're going to get some things for you, your brother, and your sister.' So I'm like, 'Okay, I'll go back to bed.' But I don't even know what happened. I'm sure we asked our grandparents, 'Where's Mom? Where's Dad?' There are these pictures of me, my brother, and my sister for that almost – it probably felt like three years, and it was like eight months. We look so sad."*

[INTRO]

[00:01:42]

FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. We all know a small business owner. Maybe we are that small business owner who doesn't have a retirement plan, who's running a business and doesn't have retirement plans for their employees because it can be an expensive benefit to provide. Our guest today is trying to disrupt this industry. Jean Smart is the Founder and CEO of Penelope, a fintech that's disrupting retirement solutions for small and micro businesses. Before her startup career, Jean was Managing Director and Head of Business Strategy at UBS. She has extensive experience as an accomplished global executive managing thriving marketing teams and business organizations.

Penelope was born out of Jean's own narrative. As a daughter of Korean immigrants, both of her parents immigrating here in the mid-1970s, they becoming small business owners with no retirement savings. Penelope is named after Jean's daughter because she wants her daughter to be able to build on the generational wealth that she's handing down to her. Jean says, "I don't want her to be my retirement plan." In our conversation, we'll learn how you can play catch-up if you are a little bit behind on your retirement planning and the behind-the-scenes of Penelope and how it's providing small business owners with a more affordable way to invest for retirement. Here's Jean Smart.

[INTERVIEW]

[00:03:07]

FT: Jean Smart, welcome to So Money. I'm so happy to have you on the show.

[00:03:11]

JS: Thank you. I'm so happy to be here. Thanks for inviting me.

[00:03:15]

FT: Absolutely. I've been admiring you and your work for a while, and I had the chance to be on a panel with you. Women's History Month back in March at Luminary, you and I and others were on a panel discussing women and money. Obviously, we want to share everything that's going on with Penelope, which is the fintech you started to help bring retirement solutions to small and micro businesses. This is so important. But, of course, there wouldn't be a Penelope without Jean Smart and the life that you have led. Penelope, actually, is the name of your daughter, which is so sweet.

I would love because I admire this so much about you and how you've really woven your upbringing into the mission-driven business that you have today as the daughter of immigrants. I was doing a little bit of research on you. Interestingly, I think you first arrived in Montclair, California. I'm in Montclair, New Jersey. The fun fact is that I do this. I have a Google News search for Montclair, just to see what's happening in my town. Sometimes, I get Montclair, California, and I'm like, "Oh, no. What happened?" I was like, "Oh, phew. It's just Montclair, California."

Tell us a little bit about your story as the daughter of immigrants. Your parents immigrated to the United States in the 1970s from Seoul. Then they left you and your brother and sister in Korea with your grandparents, while they were doing that transition, during that transition. Take us back to that moment. Do you remember much of that time frame?

[00:04:50]

JS: Oh, my gosh. I do now because I've shared it so much with my friends and then my daughter. They're always shocked by the story. But thank you so much for having me, and you did your research. I'm very impressed. I will say we started in Montclair and then ended up in Claremont, so the reverse. That was an interesting thing, too. **[inaudible 00:05:14]** California. Yes, my parents and I think my life, maybe similar to yours and other immigrant families, is not that uncommon. I think for a lot of immigrants, starting your own business is very common, small businesses. I think there's some interesting parallels. After working in Corporate America for a long time and starting this company, it's been interesting.

My parents – my dad was in business, and my mom was a pharmacist. They had grown up, gone to college, lived a very good, comfortable life. It was my dad. He wanted to try something a little bit different, more opportunities. He sold my mom on that idea. When they left, they thought it would be too stressful to come all the way over to a different country with the language they studied but didn't really practice and with three little kids under five. So we stayed with our grandparents.

Koreans are – they're not the best as being very direct and honest about certain things. So they didn't really share with us, and we were so little. I had tons of relatives at home at my grandparents' house at that time. My parents had these huge luggages, and they were ready to go to the airport. I woke up in the middle of the night, and I walked out, and I'm like, "What's happening?" My mom said, "We're going shopping. We're going **[inaudible 00:06:41]** bags.

We're going to get some things for you, your brother, and your sister." I'm like, "Okay, I'll go back to bed."

I don't even know what happened. I'm sure we asked our grandparents, "Where's Mom? Where's Dad?" There are these pictures of me, my brother, and my sister for that almost like – it probably felt like three years, and it was eight months. We look so sad. There are there pictures. I have these – when you're older, you have those two or three pictures that sort of formulate your history and your story. I will tell you another thing. I think there's a movie by Awkwafina on this. But when my uncle, my mom's oldest brother passed, he was one of the first to pass, they did not share with my grandparents that he passed. My grandfather find out because they thought it was – there are these Korean words like, "Oh, **[inaudible 00:07:37]**." Like your heart is – it's too intense. They don't want to share it because they think they're relieving your suffering.

My grandfather found out. He came. But my grandmother never got to go to the funeral. So they just didn't share with them. But there are so many interesting stories like that. Anyways, enough of that, we came here. I grew up in Claremont, went to Claremont High, went to college in the Bay Area, and found my way through New York. But the entire time, I've been working in financial services. Quite frankly, it was COVID that really was the impetus to start this business. I've been in financial services for over two decades, always working in management or asset management, and seeing the value of what households or what families can do when they're saving over a long period of time.

I think COVID – I always say during COVID, whoever you spent time with during that period, that's your tribe, right? Those are your people, whoever. For my husband and I, it was with my folks nearby. We saw sort of the devastation that small businesses were going under PPP loans being directed everywhere but not helping enough. We both had the moment of what do we do with the next 20 years of our lives. He was a professor, and I was in financial services. We decided to go for it. He went back to school to study psychoanalysis. Come this fall, he'll be able to start taking patience for the first time. Then I started this retirement plan business for very small businesses.

[00:09:25]

FT: Penelope is this fast-growing fintech. I want to understand the state of the union as you've – I'm sure you've seen it through your parents as they are small business owners without retirement savings. You're their retirement plan, essentially. Their story is not uncommon. It was the narrative that led to exploring like, "Okay, what is the market here? Are my parents just – they can't possibly be alone. They certainly aren't."

Jean, maybe just tell us a little bit about the statistics, the data, what you're seeing as far as readiness and preparedness for retirement, especially amongst this audience of small business owners and entrepreneurs, solopreneurs.

[00:10:06]

JS: Sure. The numbers are pretty bleak, and we always think there's a lot of opportunity to be had. But right now, just at the very highest level, one in four Americans have nothing saved for retirement. When we say zero, not one dollar. Two-thirds are living paycheck to paycheck. In certain metropolitan areas, even households or families making over $200,000 are living paycheck to paycheck. I think we've done a great job as a culture of showing how easy it is to spend money. There are so many different platforms, buy now pay later, do things on layaway. We're always delaying gratification, but we haven't done enough to probably share in saving and investing, et cetera, although I think there's a lot of hope for millennials because millennials have so much access to information, and they've got more time to actually save.

That leaves about 57 million Americans in that slot that are not prepared. Combine that with some general stats around longevity. In 2024, every day, 12,000 people are turning 60 every day. If you turn 60, the chances of you living to 90 is one in three. If you're high-net-worth, ultra-high-net-worth, it's significant. It's presumed that you'll have more resources. It isn't just families or individuals as a society, as a country. There are some major concerns that we have. I think very recently, Larry Fink of BlackRock put an **[inaudible 00:11:54]** out just around the state of retirement and how we need to come together to do so much more.

The good thing is a majority of Americans, about 90% of us, work in the small businesses, very small businesses. So most of the small businesses do not have a retirement savings vehicle, which has been the standard way. It's a really simple easy way you work. You put a little bit away, the power of compounded interest. You're not paying income tax on the money that you stock away. It's been really good system for 40 years. There's been a big push both at the federal and state level with bipartisan support to actually trigger this, knowing that 10 years from now, 5 years from now, 20 years from now, the situation is a little bleak.

SECURE 2.0, which is new legislation that came out last year providing wholesale broad-based significant tax benefits up to $16,500 for the first three years for small businesses who have not activated a plan, make the cost almost de minimis certainly with our plan. I think while it is dire and there's a lot to do, you can see both at the federal state and even local level people are starting to act, and they're starting to require. In addition to – I always call it the carrot and stick at the federal level. You've got these tax incentives. But at the state level, you've got the stick. California, Oregon, Illinois, several states are moving towards implementing fines if you are not set up. I think that will be the big draw in terms of getting people to activate more.

[00:13:48]

FT: You actually connected with Ted Benna who's the father of the 401(k) when you were starting Penelope. What did he think of Penelope? Tell us about that meeting, that encounter.

[00:14:01]

JS: I cold emailed him on LinkedIn during COVID.

[00:14:05]

FT: What he doing now, by the way?

[00:14:07]

JS: He is still – it's funny because I literally just talked to him a couple days ago. I talked to him last Thursday. He was visiting his great-grandchildren. Yes, he's super in his 90s, still actively involved in retirement. He was pitching a different plan option with us to see if we can actually custody record keep. He is very active. He advises businesses, startups, and works with lots of folks. He's on the press circuit, has some media out there. Ted is not retired per se. I would say he's really active.

When we spoke, he loved the idea of what we were doing, particularly with communities or individuals making under $100,000, hitting more populations writ large in a very streamlined way. He really helped us think through our initial plan design and how we would set it up so that we could do almost 401(k) in a box one click away. He was great. He was absolutely great. I love to see that he's still active and involved

[00:15:21]

FT: Can you walk us through the experience as, let's say, a business owner? Tell us along the way, too, the range of employers that you work with, plan participants, so to speak, that everyone can understand if they're qualified, if this is something to look into. As a solopreneur, I have a SEP IRA, and I don't have any employees, so that works for me. But I assume this is for people who run businesses with at least a number, a few employees, right?

[00:15:49]

JS: Yes. I would say while we focus on companies with fewer than 100 employees, and I would say our sweet spot is below 50, I think our average is about 16. It goes from 12 to 20 each time I check. We serve a wide swath. Our smallest client has two employees. Our largest has almost 400. It can vary, yes.

Then in terms of the businesses, we do restaurants, nonprofits, sort of retail, a lot of medical, professional. Those are the core businesses that we've seen out the gate. Then in terms of their experience, a lot of them, they're doing this for the first time. They're a little bit thrown off by everything from how do I start to what investments make sense or who should I – do I need to speak with a financial advisor or – there are so many different components. Even understanding the jargon around retirement plans is pretty robust.

The way we've designed it is to basically streamline the plan, automate the investments, automate contribution, automate the match, and make the price just pay per use. We've cut out the sort of cognitive load around decisioning around the plans. Do I match or not? Do I do – what should it cost? How do I select my investments? Or where do I start to offsetting and making all those decisions for them? Because we're able to intentionally design this sort of in a box, we are maximizing a lot of the cost benefits and passing that off to our clients.

The last little bit is we're very transparent on what we charge and what we don't charge. A feature that we don't charge is what's called asset-based pricing. We use Vanguard funds for our automated plan which are great funds to have. There's an expense ratio related to that, but we don't charge incremental. Those few cents to dollars every week over decades can equal hundreds of thousands of dollars.

What we wanted to do, our north star has always been impact and how do we drive the best impact for the participant, which is basically more money when they retire. For the plan sponsor, less work, less decisions, less operational compliance mode. We always wanted to be transparent with everything we're doing and how we're servicing them. We have a digital high-touch process where we do a lot of education and handholding up front. Then afterwards, it is pretty much set it and forget it. It's very streamline.

[00:18:38]

FT: What is the biggest resistance that you experience from potential clients? I know that the idea of offering retirement benefits as an employer, the thought is that it's very expensive. This is not a year one or year two expense investment for us. This is like, "When we're fine. We've hit the jackpot. We have resources. We have an HR team. We can handle this." What do you want to say to those folks who feel like this is an impossible cost? This is not something that they should invest in right now.

[00:19:11]

JS: Yes. Two things. The first is the tax incentives, tax credits. If you haven't done it, you'd be surprised at how much of a relief the tax credits can be. That's one. The second part is the cost to not do it. A lot of our clients actually come from, “You know what? I have to do this because a significant portion of our employees are leaving. In their exit interviews, they said we didn't have a 401(k) plan.” Or, “I want to hire this head of creative, but his wife won't let him come unless I have a 401(k) plan.” I've heard a lot of these, if I don't do it.

Sometimes, we can pay 30 to 50 percent cover costs for any employee that we're turning over; the cost to train, the cost to support, the cost to get them up to speed. As soon as they leave, you're starting that process all over again. I think more and more people are starting to realize that how can you afford not to do it. Again, if there's a tax incentive and you're able to decrease the overall sort of cost on it significantly, that's one component. Then realizing it just – everyone says attract and retain. Now, it is even more. I think employees are raising their hands, and they're getting very smart about it and asking directly for it.

[00:20:39]

FT: Yes, it's true. For those of us who are starting late, as you mentioned at the very beginning, one in four Americans have zero dollars saved for retirement. I was just reading a stat that came across my inbox. It was like the average amount that Americans need to retire comfortably is over $1.7 million. I've actually seen that number be as high as two million. I don't know. I guess it just depends on where you're living.

If you're starting late, let's say you're in your 40s, a lot of folks who listen to So Money are in their mid-30s to 50s as it turns out. I don't think everybody feels retirement on track. How do we play catch-up? Be real with us if it's, yes, you got to work a little bit longer. That's something that I'm already planning on doing myself, just because I like to work. But if I had to, it wouldn't be the worst thing.

[00:21:31]

JS: I started earlier about saying our longevity. There's a really good chance we'll live past our 70s, 80s, well into our 90s. Provided we're in good health, we can work. There are a lot of ways you can make money just on your computer, being an influencer or selling things online or writing. There are probably other ways, too. But I don't think if you're in your 30s and 40s, it's not too late to start if you haven't.

There are so many calculators or planning or light financial planning tools online. But I would recommend talking to somebody, getting an advisor, and doing sort of an initial plan on your current income, on your debt, liabilities. You're right. There are multiple-family formulas on do you need 1.4, do you need 2, do you need 3. It so much depends on your lifestyle. Also, are you looking at one income? Are you married? Are you looking at the household? There are a lot of different components to this.

As an individual, if your buyers just do the numbers every – I think when we spoke on that panel at Luminary, I said I'm a spreadsheet girl. I love it because everything about saving and investing and having money is just plus and minuses. It's about how much you bring in and how much you're spending and what you're doing with the middle group. I would say at the highest level, if you start – let's say you're out of debt. If you're putting money in the S&P, in the markets, what, every seven years, you should be doubling your net worth. You could do multiple of that. If you've got 100,000, in seven years it'll be 200,000, then 400,000. You're starting to accumulate afterwards.

Talking with a financial advisor or just a planner just to do the numbers and do some initial worksheets is probably a good place to start. But for all your audiences in their 30s and 40s, this is a perfect time. They're not late at all. This is a perfect time. They've got 20, 30 years, potentially 40 years to start saving. That is significant. If you put 5,000; 6,000 away every year now, in about 30 years, you'll have over a mill. You could start breaking it down like that.

[00:23:45]

FT: That's true. I like that. You're right. I love that doubling of your money, the rule of seven or sometimes nine. It just depends on how the market does. Sometimes, it takes a little bit longer. Taking us back to how we started, you were talking about your parents and the sacrifices they made. Fast-forward to today, you are, Jean, amongst the sandwich generation. You have your parents that you're supporting and looking after in some capacities. Then you have your daughter and your own family. You're very focused on building generational wealth for your daughter.

Advice for those listening who feel the pinch, right? The crunch of being in the middle and anything you've learned over these last few years, financial tips, mental health tips. A lot of this is cultural. I don't think every family, every person has this chapter in their life of taking care of their parents. But I think that's still a lot of us.

[00:24:43]

JS: Yes. I was thinking about that being Korean and growing up in a Korean household. If your children are not entirely – it's not untrue that they are your retirement plan. You grow up taking that on. It's in the back of your mind. You don't – not all of us plan for it. But certainly for me in my generation, I'm a late Gen Xer, I definitely thought that was something that my siblings and I would have to do, just because we just didn't talk about 401(k) plans or stocks and bonds when we were little and then getting into financial services where you're thinking, “Oh, my goodness.”

But in the sandwich generation, two parts. One is, and I can't say this enough, who you marry and who you partner up with is significant. If you're in the sandwich, you've got children, and you've got parents. I think – I always joke about this. My husband and I, we met online. At that time, I thought, “Wouldn't it be great if it was a dating service where you could have a credit score of somebody while you're online in it?”

Finding somebody who's responsible who's thinking about investing and saving in the same way, the same values is a game changer. You show your values on how you spend and how you're saving is huge. If you've got the partner check and you're starting to invest and you're thinking about that, I'm right in the middle of it. I've got a 12-year-old, and I've got parents in their 80s. My father's health is not as it was several years ago. Just very recently, I'm having some hard conversations with my folks about the next 5 years, the next 10 years. If there's anything I could go back on is I wish we had those conversations a little bit earlier. I think culturally, it would have been really hard to start having them. But it would have been easier from a planning perspective, especially if I was involved in helping.

I'm not sure I would be open to any advice you have on starting those discussions earlier. It’s almost the opposite with my kid. My husband and I are very open of about finances, and what things cost, and what it means to want something, or what it means to save and starting an allowance and just some of the basics now. We've thought about getting an app, Greenlight, or something for our kid to start investing and looking at the budgeting. We're just having those conversations.

What she's going to be prepared to do at my age or even 10 years from now versus where I was and then certainly the complexities around having these really hard conversations with my parents, I have a lot of hope that with just honest dialogue that the younger generation is just being so much more open. They'll certainly have all the tools at their tips, too, right?

[00:27:41]

FT: It's not so simple to have those honest conversations with your parents when you're already an adult. It feels – well, the parent-child dynamic is still at play. The traditions are at play. There's a lot of barriers. Sometimes, at this stage, too, you might have examples of people in your lives who've gone through hard stuff, and they can be anchors for conversation. My mom's friend's husband died unexpectedly, and she was not the – my mother's friend was not – she didn't have any clue as to where bank accounts were, had to pay the mortgage. They had not talked about money.

That became a caution tale for my parents to then have conversations and get a little bit more prepared for those what-ifs. I think that always helps to break the ice was to sadly use other people's despair and tragedy. Be like, “Let's not follow in their footsteps because this is – we're on that path, too, and it's avoidable.”

[00:28:46]

JS: Yes. In your book, you talk about the fear. Use fear for your energy to do something, to take action.

[00:28:55]

FT: Catapult you. Yes, yes.

[00:28:56]

JS: To catapult you. Use it. Don't just be paralyzed by it. I think that's spot on.

[00:29:04]

FT: Often we're holding these two fears in balance. We think that we're only afraid and that there's one immediate fear of I'm going to want to talk to my parents about this, and it's going to be uncomfortable, and it's going to create just discomfort, and we fear that, rejection all of the things. Yes, that is true. Also, there's another fear that is very real that is down the road, which is that if you don't do anything, it's just going to be a nightmare waiting for you in five years, at a point when you're grieving potentially, and you have to deal with all this financial stuff.

It’s sometimes about recognizing that other fear that's lingering in the future, holding it in balance with whatever you're afraid of today, and probably seeing that what you're afraid of today is nothing compared to what's waiting for you down the road and then doing the thing that needs to be done.

[00:29:53]

JS: 100%. You don't get out here alive, or you don't get out without paying taxes. It's going to – it will be there. Whether it's taking what – how do you eat an elephant one bite at a time, all of those things. Maybe practice every day. For everyone, just do we all know exactly what our finances look like today? Do you know how much you have, how much in debt? What's in every single expense line of your credit card? It may just start with yourself and then your family and then expanding out to having those conversations. Your parents are going to be uncomfortable, for sure. But you've got to do it.

[00:30:31]

FT: Tell us how we can learn more about Penelope. We'll, obviously, put the link in our show notes at penelope.co. I almost named my daughter Penelope, too. It was on our hot list of names, by the way. Love that.

[00:30:42]

JS: Yes. Just go to penelope.co. We've got a link to set up an appointment. We can answer any questions you've got about a 401(k) plan. We have two very straightforward plans. One has a matching feature. One doesn't, Starter (k), very easy to use. We've got great funds. The cost is unmatchable, especially without the AUM. That's a great place to start. Usually, between two or three other folks and myself, we respond pretty quickly. We're happy to answer any questions, provide information, and walk you through a demo.

[00:31:18]

FT: All right, Jean Smart. I knew this was going to be a good one. Thank you for your time.

[00:31:22]

JS: Thanks, Farnoosh.

[END OF INTERVIEW]

[00:31:26]

FT: Thanks to Jean Smart for joining us. To learn more about Penelope, visit penelope.co. I'll put that link in our show notes. I'll see you back here on Friday for Ask Farnoosh. I hope your day is So Money.

[END]

