

## **PITCHIT FINTECH STARTUPS PODCAST NO. 75-JEAN SMART**

Welcome to PitchIt, the fintech startups podcast, one founder, one startup, one investor at a time. I'm your host, Todd Anderson, Chief Content Officer, Fintech Nexus.

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**Todd Anderson:** On today's episode I sat down with Jean Smart, Founder & CEO of Penelope. Penelope is the retirement savings platform for small businesses and entrepreneurs and really what Penelope enables small businesses and when we say small, we're talking 10-person companies, 15-person companies is to be able to offer retirement savings as a benefit. And so, that could really help change the mindset on how people view these types of jobs, maybe it's the local mom & pop grocer, the local mom & pop print shop, whatever it might be. If they're able to offer the full benefits package from, you know, a decent or good salary, to healthcare, to retirement it really could change the dynamic. And so, Jean and I talked a lot about how they're able to do that, the types of companies ultimately that they're trying to help and offer this to, you know, how this offering potentially aids financial inclusion.

We also talk about her story and her family's story about coming over, you know, to the States and what some of those barriers are that immigrants face when it comes to financial products, in particular, you know, language barriers and how that product presented. We also talk how Penelope presents their product, you know, to the small businesses that they're looking to help. You know, traditional financial products are kind of the fine print in this long package that are pages and pages long and Penelope is really starting to change a lot of that. We also talk about education, raising capital and much, much more. I really hope you enjoy the show as much as I did.

Now, without further ado, I present Jean Smart, Founder & CEO of Penelope.

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Welcome to the podcast, Jean, how are you?

**Jean Smart:** Hi, I'm doing great, thank you for having me, Todd.

**Todd:** Of course, thanks for coming on the show. I'd like to start off with a background so if you could tell me and the audience a little but about yourself, you know, where have you been professionally and kind of what got you to the point where you started your own company.

**Jean:** Sure, happy to do it. So, I have been in financial services my entire life, I was born in Korea. When my family immigrated here they had this vision of their kids being a doctor, a lawyer, in business and I think we just...all the kids we started to follow suit, but after college I've worked from all the major sort of large financial institutions mostly in Wall Street doing marketing, product marketing but always working with companies on their employer benefits so stock plans, retirement plans, financial wellness primarily for the large company.

What got me here is I was set in a founder for about a minute, I spent most of my decade in corporate or large institutions, but I think I always had an itch to do something different. My parents had their own businesses so I sort of watched that and it was, quite frankly, COVID. I was working during COVID at home and it just felt like it was time, I felt monotonous, I had sort of peaked and I've been itching to do something within fintech, within inclusive capital and the timing seemed perfect so I left last year and started.

**Todd:** So, what brought you to.....you kind of answered my next question, what kind of made you a founder, but, you know, what brought you to the point of starting this venture and this idea? Was it something that you saw when working with the companies that you worked with when you were at those big names, kind of what brought you to the point of this idea and this time?

**Jean:** So, at these big names a lot of the clients in wealth management or asset management or large institutions are people that need their monies invested. I knew just from personal experience with my female relatives or might have been my parents when they were starting out their businesses, they don't always get the advice around what to do with their company, to find the best tax advice, to find the best personal investing advice and there was just a huge segment of the population that was untapped. During COVID, a lot had to do with.....my parents and my husband's parents both come from service sort of businesses and whether it's through their church or being teachers, we've always grown up with this foundation of doing a little bit more beyond just our own profession and I think it was a huge reflective time to be able to think about these small companies.

So, a lot of it is an homage to my parents who had restaurants and dry-cleaning stores, grocery stores and looking at so many other businesses that were being decimated during COVID so much so that they had to take PPP loans and were just struggling to stay afloat. There was a way to help these companies fulfill their mandate, attract, and retain employees and so something for themselves so that's why I started Penelope which is a DIY 401(k) platform retirement savings for very small businesses.

**Todd:** Before we get into kind of more about the platform you mentioned your parents and, you know, coming over here as immigrants, how much of a barrier is that? I mean, you've obviously worked at the Schwabs and you've seen kind of the other side of it, how big of a barrier is coming to a new market, especially one like the US, being immigrants, I mean, how much far behind do you feel before you even get started?

**Jean:** Well, I think, first of all, you have a lot of hot spa to calm to take that leap then once you're here let's start with the basics, language, and let's start with roles, guidelines, who you know, how to apply for small business loans, who to talk to to set up your shop, how to hire people. Everything is brand new and I think most immigrants when they come, possibly they've got a relative or somebody that they know here to sort of show the way or they're self-directed. I think when my parents came versus now you've got the Internet so there's so many more opportunities to get the guidance and the tools that you need, but the barrier and the chasm is quite large.

The biggest part, I think, is just deciphering sort of the language, the jargon and trying to understand, what does that mean for my benefit so if you don't understand small business taxes, it's really hard to understand what you could do to take advantage of it. So, I think it's trial and error and just a lot of grit,

you've just got to stick with it and I think there are a lot of people on a day-to-day basis operating in that mode and we need more capabilities, the solutions to help them.

**Todd:** So, tell us a bit more about exactly who Penelope is looking to serve, is there kind of a sweet spot of what you would consider an ideal small business that you serve or kind of the gamut of one to three people up to 10 to 15 people, kind of who's the ideal customer and exactly what are the products that you guys offer.

**Jean:** Sure. The product's definition is that we focus on businesses with under a hundred employees, but, by and large, most of our clients are probably under 15, under 20 or so and they don't have a retirement savings plan installed today so they are looking for a solution that's in plain English, something that has a lot of the decisions or flavors that they're looking for and something that's quite easy for their employees to participate in.

Since we've launched about seven months ago, I would say all of our clients didn't have a plan so they're coming in brand new and we're hitting a lot of different industries, a lot of them are what we call "minority small businesses" which we've defined as women-led and led by first and second generation immigrants, but they come from all industries. They are people for who sort of oh, I recognize that lady or this seems accessible when they go on the website, and they are not discerned by it. They go in, they set up an appointment, we do a quick demo and that's what it's been today, so far.

**Todd:** How much do you think of an impact could it be on some of these businesses and kind of how they're perceived if they're able to offer something like this versus not being, you know, kind of maybe being viewed as hey, this is kind of a first job or this is a job they'll have when I'm in my 20's in college and they don't think of it as maybe a potential long term solution. But if they had a benefits offering that was similar to what they may get at a big corporate, would more people stay in some of these jobs and kind of grow within that job versus maybe where we're at today?

**Jean:** Attracting and retaining employees is the number one reason that many of these small business owners are activating this plan. The last Jobs Reports that came out, even though there's a lot of doom and gloom about the economic environment, the inflation, recession, a co-host of items, small businesses are still hiring and they're hiring and paying up, increasing their benefits, it's just taking a little bit longer.

They may not be able to pay, especially if it's retail and minimum wage, they may not be able to pay at the rate of the Fortune 1000 or Fortune 500 companies, but they need it, they need to hire people to survive, right. We're talking rep cons, mom & pops, retail, they need it so they don't have a choice but to hire and when you talk about drawing and attracting the right set of employees, this is kind of a natural especially for families. It's becoming more and more table stakes just like health insurance.

**Todd:** Is the biggest barrier for small businesses, is it cost and what can it cost wholesale to offer these, is it some of the other stuff that you were talking about which is kind of jargon and not really understanding what I can potentially offer? What are kind of the biggest barriers in terms of I was a small business owner maybe looking to add this to my offering?

**Jean:** Yeah. So, a couple of things. First of all, I think, overall, the barriers has been reduced quite a bit over the last five years just with the proliferation of more digital, what I call the first wave of non-sales-provided retirement plans of capabilities of which we are digital record keepers and there's a lot of information when you start googling, but the initial barriers are who to choose and do I have to do it and understanding the benefit.

What we've been trying to do much like this format, we've done a ton of webinars with some very notable people in the space and other clients to share how easy it is, what the tax benefits are if you actually apply, the benefits long term of keeping your staff versus churning so it's education and then once a business owner decides they're going to do it, it's about who and there's a bevy of choices. One of the things we're working on is a really streamlined tool that clearly articulates our unique differentiator so that they can choose, we're not for everybody, but for people who are interested in saving money, time and a DIY solution, we're the right gambit for that.

**Todd:** Has there been a...there's obviously been a proliferation of kind of an investing apps and, you know, a lot of do-it-yourself investing apps, do you see that as a potential or have you seen it be impactful on your business that maybe employees might think hey, I don't necessarily need a 401(k), I have Robinhood or something and I can just go invest myself or is that not necessarily impactful on what you can bring to a small business, like has there been an impact?

**Jean:** So, I think apps like Robinhood and other brokerage apps for individual investors, if they're so inclined, can go on, you can buy fractional shares like crypto, alternative assets, there's tons of stuff. I think COVID has forced business owners and all users to search the web to find the right source so the behaviors around being more DIY is certainly there. When it comes to the employer benefit and getting the tax deferred contributions in and the benefits to compounded interest, that still requires a little bit of education and I think something that more and more business owners are up to doing.

We're just converting that sort of web page or, you know, a 10-page PDF into videos and on this TikTok flavor into explaining the benefit very quickly to the business owner around tax benefits and the opportunity to take advantage of tax credits and then see the impact on employees. I would say the other part is you're starting to see the state mandates so Powerful News is one of them, they are 14 states that have passed legislation requiring small businesses with more than five employees to ten employees a mandate a qualified retirement plan. So, if they don't have one, they've got to do it and they're starting to see more and more of this happen and a big part of that is just kind of, you know, I'm a GenXer and I've always heard social security joining up, social security joining up.

**Todd:** Yeah.

**Jean:** If you actually go the deal, Well website, it has 2037, that's like 14 years away so you're starting to see more of these mandates and more of the states enforcing it and more of the small businesses, just like medical taking on more of that responsibility for employees.

**Todd:** In hearing you talk about that, not unless it was a piece before in the package of how you're offering some of these stuff because, I mean, the old school financial products is here's like a booklet that's 87 pages and the prints are like really small and you can't read any of it and right away, you feel

like this is overwhelming. But if someone could present it to you on a 30-second clip or a one-minute video or a TikTok that makes it fun, it kind of potentially changes the dynamic, I would presume, right?

**Jean:** Yeah. It feels more like the way we're operating today and it captures the noise and as long as we make a lot of the decisioning straightforward because the best digital product is when you take the worry and the thinking out and you make it as accessible for the user. So, the way we've built the product is leveraging a lot of changes in the secure app around our plan design which is basically the rules that govern the 401(k) plan. So, instead of a business owner answering 40,50,60 questions with the sales rep, we make the choices very limited and we made a lot of those decisions for them so they could say, I want my employees to be able to pay 3 months or 12 months, I want them to have eligibility when they're 21 or start at 18 with some of our retailer clients have done.

So, they make those decisions and then we do automatic contribution, we do automatic match and we set a lot of investments so that the employees don't have to pick and choose based on the big ones which calibrates sort of the risk and underlying investments based on the age and we use very well-known vanguard which is sort of the high standard of funds available and we don't charge a lot of hidden fees in between to make those decisions, no bells and whistles, very simple with good outcomes or good returns over the next 10 or 20 years based on the last 20 years and something really simple. We try to take all that decisioning out and make it as easy for them as possible, for the employer and the employee.

**Todd:** How big of an impact could, you know, this type of program that are in these types of small businesses have an eventual impact on financial inclusion and, you know, the way people think about money because obviously, one of the things, especially here in the US, is we don't talk about money enough. You know, we're not taught in early school or even like high school, it's basically the first time we have a real interaction with money. Many people is when we're going to college we have to make that decision about a student loan and we barely understand a lot of that, but if we had a 401(k) from my first job you have a better understanding of these products, don't you think financial inclusion-wise would rise and people just have this better sense of what money is and what it can be for them and their families?

**Jean:** There's nothing like putting a little bit away and investing it and looking back at it a year later, five years later, ten years later and you feel and experience the power of compounding. I do think all of that, I think if we would all start at 18, what it could do for our outcomes, so we have a lot of built in calculators. If you could earn \$3,000 a year into one of our plans, you know, 30 years later, you're looking at a significant, significant amount, you're looking at potentially over a million dollars so that's just a couple of hundred dollars a month. There are a lot of ways to start to monetize this and it's that idea of set up, forget it. You put a little bit away, you pay yourself first before anything else, you don't have to pay taxes on it and a lot of our plans are what we call "safe harbor match," you grow and you watch that grow and that becomes your own personal sort of social security money.

So, I think sometimes we live in a culture where there's a quick hit, you're a crypto millionaire, you're a founder and you've done it really fast, there's a lot of that fast or sexy money, but most of us work and it takes a while. And I would say, by and large, vast majority of our employees are participants in our client group make \$30,000 to \$100,000 and there are opportunities to retire with a million dollars and how that sort of psychic relief that many people are having or being challenged and experiencing.

**Todd:** You mentioned crypto, I'd be remiss not to ask about it. What are your thoughts on like an asset class like that and, you know, it does give the impression that there is this get rich quick aspect to some of these options when in reality, like you said, you work, you put a little away and then hopefully, over time it continues to grow into a nest egg or a retirement fund. But how do you think of potentially adding that to your offering and do you have any general thoughts on kind of that riskier type asset class.

**Jean:** So, today just in that core for a 401(k) product you can actually do it in a higher account, we are not able to put crypto funds in it so today it is not a regulatory visibility. This is the way I feel about that asset class or industry, private investments or any other alternative. Everything, it depends, and diversification is key so if you're 60 and you're 90% all in in crypto, is that a good idea, probably not; if you're 25 and 90% is probably still not a good idea, but 5 or 10, possibly. I don't think it's going to go away, but I think it's really important to make sure you don't put all your eggs in one basket.

And over time or the course of time, particularly those that are so volatile and everyone has to probably do a check-in to see how risk averse I am. For the earlier part, you just go back at these target date funds, index funds, after 20/30 years they've returned at an average of 20/23%, that's not terrible. So, I know a lot of people are trying to beat the market, got for it, have at it, could be fun, could be interesting, put a little bit away, but you should reserve that, pay yourself, your core, your own social security money into one of these plans and you should do a little bit all the time so you get in the habit of it.

**Todd:** What's the biggest lesson you've learned about your company since you first launched?

**Jean:** I wish I did this 10, 20, 30 years ago, it is the most exhilarating, you feel alive and alert by every fiber of your body, but man, it's tough, it's hard. So, I have such respect for founders and entrepreneurs and anyone starting something on their own. Even if it fails, get up and try it again, it's just the most intense ride and you can't normalize things and you're always looking for constant improvement. So, all the things you learned in school to be your best, to try your best, to improve things you're actually able to do as a founder in your own startup, you're making decisions faster and you're calling your teams right away, you make impact and you see the results of that right away which is pretty exhilarating.

**Todd:** Best piece of advice since launching?

**Jean:** It's probably from my first investor which is, build based on your lived experience so don't do things based on the way VCs, founders, other fintechs build based on your limited experience because you have a different experience than many and I ...even when they first said it, I don't want to even think I knew exactly what that meant. I just think that when I started first pitching to investors, I was trying to be that perfect founder or speak in a certain way and what I'm finding is, Harlan Hamilton says it, he says just be yourself because when you are yourself the people that want to be around you will find you. So, I'm very much trying to dig into that more and more.

**Todd:** I want to shift the conversation a little bit, you know, how many people are you today, what does the team look like, who are those around you that are helping build out the company?

**Jean:** So, we had about five or six two months ago and now, we're 12 so we're experiencing, looks like whaaaaa (both laugh), going from five it's almost like we had five working on ten pieces of the puzzle and now we have 12 working on a thousand pieces so there is that growing pains, for sure, and we are various time zones. We're in California, in Nebraska, in Virginia, in New York, in North Carolina and then we've got developers in (inaudible) and the Middle East.

So, the time zone, the functions and then our different styles, I mean, a big part of it is just making sure wait, did everybody understand what just happened from that exchange of that meeting and we're all walking away doing the same thing. So, that's a lot of effort, but I think at the core we've got sales, we've got partnership, marketing, a lot of developers and compliance, of course, operations and client experience so we have a lot of departments of one or two right now, but as we grow and expand we'll sort of retrofit and build up those functions.

**Todd:** You referenced fundraising, how was the fundraising process and pitching and talking to investors and kind of what you learned about Penelope when doing this.

**Jean:** So, when I first started it was probably good, I didn't have amounts of facts around women getting 2%, women in fintech getting 1%, minority women getting less so it's probably good, I just didn't even think about that. So, the experience was not completely unlike what. I had done in my professional life which is think of it as a project. You have a stated goal of what you want to raise, there's a process in raising, you go the list, if you have to talk to 200 people, you chunk it up 50 people per month, you set an appointment, you find out who knows who.

So, I triggered it very much, like I would say this to my husband flipping a burger, don't over emotionalize it, don't over, like I try not to Google too many people because you're likely in awe so I just want to talk to them human to human and then you just call, you start making this call, you start doing it. So, I think I try to de-emphasize it and make it much more like flipping burgers every single day that probably got me through it until you were on the other side. But it's been a huge learning experience as you're putting your face in front of somebody, talking about what you believe in and asking people to write you million dollar checks. It is so surreal, it is so bizarre and again, another reason why I love founders and have such respect to put yourself out that like that, it's been.....most of the VCs and investors are fantastic, they're great, they want to help, they're looking for opportunities.

**Todd:** Any fundraising horror stories which is really bad experiences.

**Jean:** I'm not naming any names although that's probably a different podcast (Todd laughs), but I will say two that are interesting. So, one is, and this is early days, so I didn't Google on PitchBook or Crunchbase to see who these investors were, but one was a later stage investor, I think C, a D and a competitor and they set up a meeting, like wow, they're a big company, this is great and so I pitched to them and later I found out they sort of...it just wasn't sort of the rule. If you're investing in a company, you don't then.....and maybe they were doing competitive due diligence, etc. So, I gave away everything and it was daunting to hear that they were invested in a competitor a little bit further along.

Another one was somebody who sort of followed me on LinkedIn for a little bit and I thought it could be great strategic partnership, etc. and I thought this is great so I had a meeting and they had six other people join doing a very deep dive and maybe that's something they want to build in. So, I think I have been approaching this very much direct and as open, I just share because how will you get people to trust you and invest in you and I have learned over the last year to be very thoughtful about that a little bit more and doing a little bit more research. This is probably Fundraising 101, but at the beginning I was just sure, I'll tell you everything and I think I'm just being a little bit more thoughtful now.

**Todd:** Before we end, a little bit of fun. What's the piece of advice that you would offer up to a fellow founder, whether it be fundraising-wise or just of kind of what you've learned, thus far, on your journey.

**Jean:** Make founder friends, other founder friends are tightly knit cohorts, it's not necessarily your significant other, families, your VCs will definitely help, but there's nothing like people who have gone through, actually, my friends who are further staged than you to see to see what the next round is going to be. For me, it's been a small cohort of women fintech founders, they're doing KYC, they're doing payments rails, international sort of enablement stuff and get them in a different business protocol because we inspire each other and we give each other sort of tweaks around strategic partnerships and other things that we could do. I would say, they're the only ones that know exactly what seed you're in and where you're going.

**Todd:** To end, it's going to be a little bit lighter. So, do you have a favorite book or the last book that you read.

**Jean:** Oh, my gosh, this is embarrassing. I haven't read in a while.

**Todd:** Then go with what you have like a favorite podcast or something along those lines, kind of the way you consume information is totally fine as well.

**Jean:** You know, I am still reading Wall Street Journal, the short recap, New York Times, Business Insider, very top line sort of news and I am starting to just have a little more time. I don't commute by car so I don't listen to (garbled) but I'm just starting to get into a few podcasts and there are a couple of sort of fintech ones that are out there, but mostly, if I am going to listen or watch media, it is TV shows and other things to get completely outside of the business fray.

**Todd:** Well, that was my next question which is, you know, founders, obviously, they can't burn themselves out, though I'm sure many try, but what do you do to step away, unwind, is it the TV shows, anything else that kind of get your mind a little bit free from the grind of running a company.

**Jean:** So, a couple of things. I just finished watching White Lotus, the Finale.

**Todd:** Don't give any spoilers.

**Jean:** I'm not saying anything, (both laugh) I'm not saying anything, but there's such rich content, TV shows are really great, but I'm also then....you know, my daughter is starting to debate and she's in middle school debate, my husband's a debate coach and this is sort of a family thing we could do together, go to tournaments, it's just amazing to hear these young kids argue up and up of like grown



up issues and being able to form those ideas. So, we've been doing that and I am really looking forward to Christmas and New Year's for an extended break so that's what we've been going.

**Todd:** Do you have a favorite sport or sport teams that you root for?

**Jean:** Oh God, this is bad. No, I don't (laughs), right now, I'm so focused on kids' stuff so my daughter was on a volleyball team and now she's watching basketball, but I would be remiss if I didn't mention the Mets, we have family who played for the Mets, my husband is a die-hard and we still go to as many games as possible. My in-laws are very much into college gymnastics so I think sports is not the number one thing, but I'm adjacent to all the big fans in my family and those around me.

**Todd:** It's good that you said Mets because I'm also a Met's fan. (laughs)

**Jean:** Whooooo!

**Todd:** But it's funny, you're not alone in that many founders that I've talked to, I'd say, maybe 1 to 2% of them are like normal, I'll watch a football game or I'll watch a regular sports, most either do a lot of sports themselves to kind of like unwind or get out or they're into very obscure sports. And so, it shows you the founder mindset is kind of always a little bit different than say a typical person so it's always interesting to hear founder response to that question.

**Jean:** I think, you know, like I love ping pong and I'm pretty like (inaudible) and I see why because sports takes up a lot of time, it's four hours, 20 hours a week, you can't do that and you're fidgety so you're going to be working while you're watching so you have to go on short sprints or have something that's super engaging. And I would say to having taken up skiing a little bit later in life, I did it when my daughter was learning. It is so exhilarating because the whole time you're like don't fall, don't kill yourself and there's something like super exciting about that so that's something I'm looking to do the rest of my life.

**Todd:** Do you have a favorite vacation spot?

**Jean:** It is, you know, it's where...my parents are in Southern California, Newport Beach, Balboa Beach, we just went up for Thanksgiving. I remember going there a lot when I was younger and we just started, we visited, I live in New York, I'm in the East Coast, but it's so quiet and pretty and serene and that's going to be more and more of a favorite place that we go to.

**Todd:** Final question, biggest inspiration in life, what inspires you?

**Jean:** I think this is about through my daughter I look at, she's 11 now, a lot of the GenZ younger people and people who are working for me at this game, they're so smart and they're so capable and they've got all these tools available to them. So, whether they're debating or researching or accessing, I think what they can do when they get into positions of influencing and changing things is going to be wild so I would say this next generation of young people, I think the GenZ population is probably the smartest group of people I know, I also think they're the most stressed out. So, I hope to find ways that they can find some relief and not kind of be in the grind but I really look forward to kids and this next generation of people coming into adulthood.



**Todd:** Well, Jean, I greatly appreciate your taking a few minutes and coming on the show, how can someone reach out, how can they find Penelope, and I'd be remiss not to ask because I meant to ask earlier, where did the name come from before we finish.

**Jean:** (laughs) My kid, her name is Penelope and a whole host of things, but not only trying to humanize retirement savings but Penelope's actually the direct beneficiary of my 401(k) plan and everything my husband and I are working for and that's most of the reasons why we work, right, for our family, for our kids, for the next progeny, the next generation.

**Todd:** Yeah, I have two young boys so.

**Jean:** Awesome. So, they're going to love what you're doing and they're probably listening to all these podcasts and learning about them and tanking on these tools. So, that's a big part of it and if anyone wants to get a hold is us we are [www.penelope.co](http://www.penelope.co) and you can email us at [hello@penelope.co](mailto:hello@penelope.co) and set up a demo or ask us any questions and we're happy to help you getting set up for your retirement future for yourself and your employees.

**Todd:** Alright, thank you very much, Jean, greatly appreciate again coming on the show, continued success to you and the team.

**Jean:** Thank you so much, thanks, Todd.

**Todd:** Thank you.