The future of retirement

Innovations in technology are offering consumers more options and flexibility

Building a better working world

The retirement industry has shifted dramatically over the last 30 years from a system designed to provide a defined benefit in retirement to one that burdens consumers with complex savings and investment decisions. This has resulted in a complicated web of firms providing workplace investments, personal investments, insurance products, banking solutions and financial advice. The simplicity of receiving a steady pension to fund a retirement lifestyle has been replaced with consumers attempting to solve basic questions like how much to save, where to save, how long to work and how to maintain their living standards.

This shift in burden to the consumer has heightened the importance of retirement savings, financial planning and lifetime income generation. Millions of workers in the United States are accruing retirement savings for the first time, driving a booming market for retirement plan servicing, holistic financial advice and wellness solutions. According to a survey by The Harris Poll,[1] only one in three Americans turn to registered financial advisors for financial advice with the majority relying on family, friends, employers and digital sources for help.

32%

Only about 1 in 3 Americans (32%) turn to registered financial advisors for financial advice,

52% while more than half (52%) turn to family

41% more than a third (41%) turn to digital sources

As a result of legislation, industry consolidation, technology innovation and most importantly, a desire to focus on the needs of consumers, we believe that the future of retirement will result in:

1. Disruption in product and service distribution models that provide better access to personalized solutions, flexible investment options and portability across providers
2. Expansion of distribution and servicing options for retirement solutions despite further consolidation of recordkeepers
3. Increased plan access through vehicles including pooled employer plans and state IRAs
4. Greater access to holistic lifetime income solutions with guided advice
5. Improved financial and health-related advice shifting from point solutions to holistic solutions being driven through a "primary care" providers, both digitally and human-supported

To explore these themes and to better understand the current and future state of retirement in the US, we hosted a four-part EY Innovation Studio (EYIS) series of interactive live streaming events on “Reframing retirement.” Unlike other industry forums, these sessions brought together participants from more than 65 companies and 175 executives from across the entire retirement value chain, including wealth management, banking, insurance, academia, big tech, government organizations, financial advisors, recordkeepers, plan sponsors and retirement associations. The group collectively thought through the critical issues affecting consumers today and explored solutions that could reframe and transform retirement.

Participants in the series committed to five key retirement industry priorities:

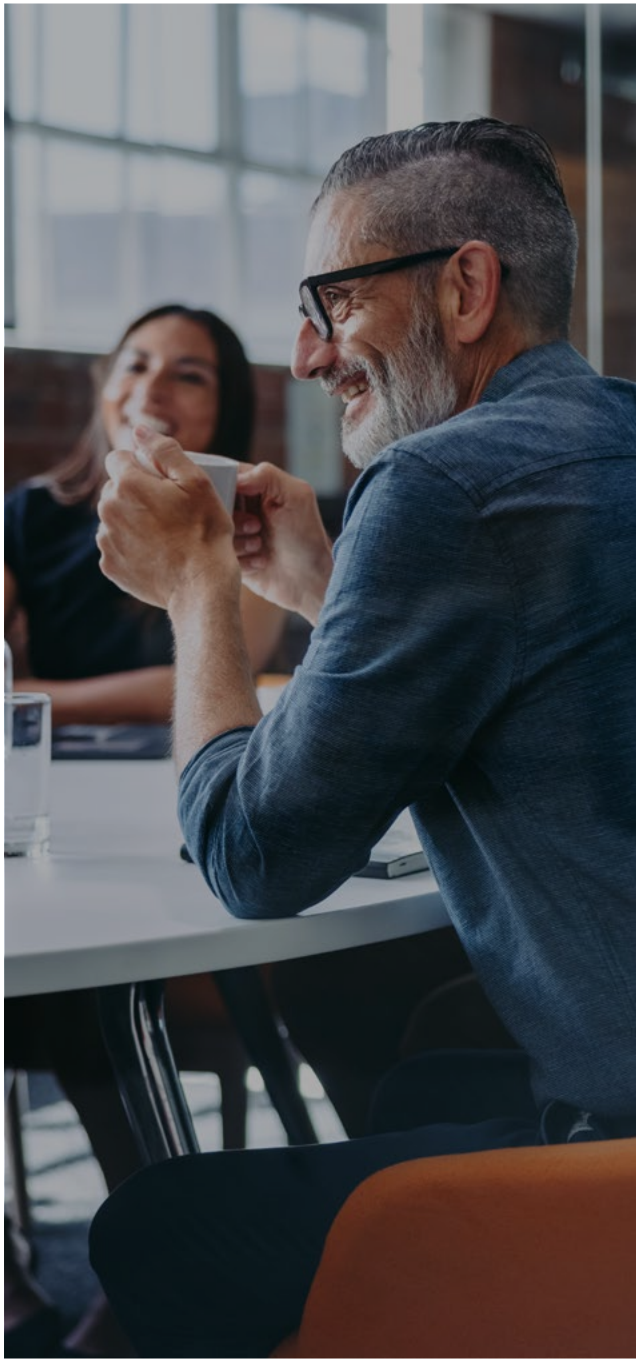
01 Drive financial inclusion and empowerment for all.

02 Shift industry norms to focus on outcome-based experiences and solutions.

03 Enable a connected ecosystem of solutions that spans health, wealth, career and life events.

04 Innovate with policymakers and the IRS, given that much of the industry is structured around tax policy.

05 Leverage data to better personalize experiences and retirement solutions.



With priorities established, the group looked for outside-in inspiration to envision a world in which the needs of consumers could be addressed collectively by the ecosystem. Amy Webb, Futurist from NYU, encouraged the ecosystem to focus on the consumer of today and potentially rebrand “retirement” to “lifelong self-care” – this addresses recent trends of individuals continuing to work throughout their aging years and the need for help not just with financial advice but also health and life events.

In addition, Anne Ackerley, head of BlackRock’s Retirement Group, joined Preston Rutledge, former Assistant Secretary of the U.S. Department of Labor’s Employee Benefits Security Administration, to talk about how the retirement industry needs to work better together so consumers don’t have to navigate our current bifurcated product-based industry to address their unique needs.

Evolving models

To address the needs of consumers and deliver experiences that remove the complexity of the current retirement landscape, firms need to evolve their business models and drive technology innovation to develop ecosystems of holistic retirement solutions.

The retirement industry can look to travel industry innovation for inspiration. Terry Jones, founder of five startups with two billion-dollar IPOs – Kayak and Travelocity – shared a compelling story on the disruption he led that revolutionized the way consumers aggregate travel data, book travel and experiences, and navigate their travel lifestyles.

Following Terry's insights and to further explore the travel ecosystem's striking parallels to what is needed in the retirement industry, Josef Pilger, EY Global Pension and Retirement Leader, emphasized the need to focus on consumer preferences, specifically the choice of provider and more personalized experiences. Josef emphasized the ecosystem mindset being utilized by successful retirement systems in Australia and the UK, and he encouraged the cohort to leverage lessons learned in those countries. EY Innovation Studio participants agreed, with nearly 50% of the group stating that cross-ecosystem collaboration would play a critical role in addressing consumer needs.

1 Policy

17%

Considering opportunities to lean on policy progress and action, e.g.:

- State interests in increasing financial education
- Influence public policy
- Financial reporting

2 Cross-ecosystem

48%

Rethinking how the ecosystem interacts and delivers value, e.g.:

- Network of partners to focus on core strengths
- Seamless distribution
- FinTech value-add

3 Industry standards

19%

Identifying needs for industry standards, e.g.:

- Lifetime income and decumulation standards
- Data privacy standards
- Consumer protection

4 Technology

5%

Embracing technology and data to address challenges, e.g.:

- Modernizing platforms
- Data sharing
- Personalized solutions

Innovation Studio participants agreed that firms across the retirement value chain will need to work better together to address consumer needs.

Investing in technology

There is still significant opportunity for the retirement industry to serve underserved markets and provide advice to the masses. Large numbers of small and mid-size companies do not provide retirement benefits, and consumers are hoping to retire despite not having a clear picture of their preparedness.

To overcome these challenges, firms will need to invest in technology to scale distribution, employ advice technology that works across multiple financial relationships and rethink business models so that providing advice on held-away assets makes sense.

Polling question

Where do you think the largest financial prize exists in this value chain?

75%	23%	2%
Distribution and advice	Product	Recordkeeping

Innovation Studio participants believe scaling distribution and providing comprehensive advice across a client's entire financial life are the highest-value services that technology innovation and adoption can support.

The opportunity to create real consumer value comes in aggregating multiple retirement solutions into a cohesive experience. Roger Park, EY Americas Innovation Officer, said that the industry is moving along an exponential technology curve and that "to prepare for the future, to 'catch the curve,' we need to consider potential scenarios that we can invest in today that will both provide long-term value and help us prepare for the disruptive technologies of tomorrow."

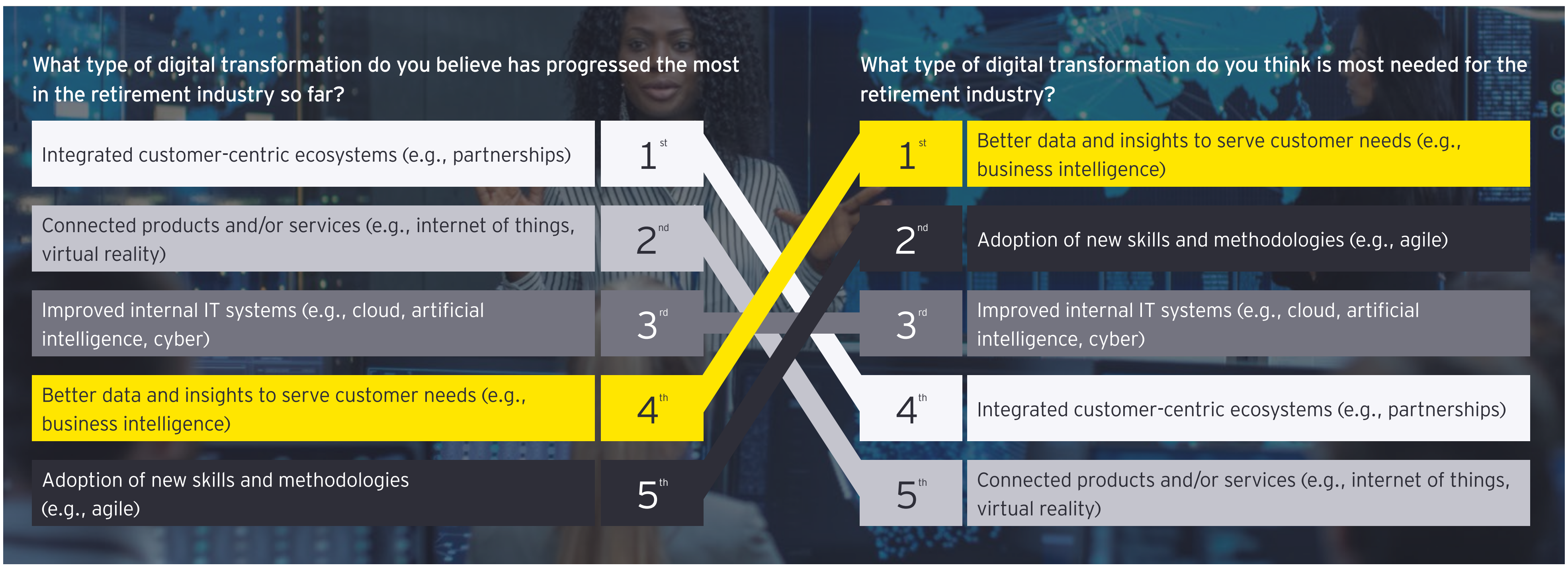
To that end, EY clients are increasingly making investments in artificial intelligence (AI), blockchain technology, new retirement income solutions and retirement planning experiences in the metaverse, and defining new retirement experiences with embedded finance. Sandeep Kumar, EY Retirement Technology Leader, has been working with large retirement clients and EYIS participants in experimenting generative AI solutions in business operations and exploring distributed ledger solutions to improve the operational challenges of data exchange and reconciliation.

"Large language models can be used along with enterprise knowledge systems to create solutions that improve agent productivity and more actionable solutions for the participants," said Sandeep. Complex questions like "I need money urgently to prevent an eviction from happening" can be contextualized in the context of a participant's plan rules and situation to generate clear one-click actions to apply for a hardship withdrawal. In the absence of such solutions, the experience is far more complicated, often requiring poring through several pages of FAQ, reading the plan documents and contacting recordkeepers to arrive at the above actionable state. For agents, such solutions reduce the learning curve and improve productivity while improving participant experience.

Additionally, the EY organization believes technology can enable the industry to address portability issues related to small accounts and missing participants. According to Sandeep, "distributed ledger solutions, if adopted by retirement industry players, could reduce this friction with a single source of truth with immutable data. The challenges in consolidating retirement accounts and finding missing participants is almost eliminated with a distributed ledger." More broadly, distributed ledger technology will reduce reconciliation challenges and enable data standardization, which will reduce repetitive data exchanges.

Kelly Hynes, EY Retirement Leader, further explored challenges and opportunities that FinTech and big technology have in curating a better retirement ecosystem with Aaron Schumm, Vestwell Founder and CEO; Marla Sofer, former Microsoft Financial Services Lead/Industry Solutions CTO; Shaun McGinty, retired Fidelity Investments CIO; and Mathew Keeley, GROW Inc. Co-founder and CEO.

The most important theme that emerged was data. Cybersecurity and privacy concerns are critical, but access to participant data will allow the industry to better service the end consumer and provide the holistic financial advice they need.



Innovation Studio participants believe data transformation is the biggest opportunity for investment going forward to unlock highly valuable insights to address customer needs.

Culture and strategic growth

We are at an inflection point; it is critical for firms to determine their strategic role in an industry being reframed. To drive changes that can benefit consumer experiences and outcomes, firms will need to reconsider the way they operate.

According to Ed Murphy, CEO of Empower, his company's tremendous growth is based on accountable leadership, being first to market, and fostering an inclusive and collaborative culture. For many retirement providers, placing humans at the center, both employees and consumers, is important to initiating change that leads to future growth.

The event series concluded via a panel discussion with leaders from retirement industry organizations. Asso Yankson, EYIS Reframing Retirement program lead, was joined by Lew Minsky, President and CEO of Defined Contribution Institutional Investment Association; Tim Rouse, Executive Director of the SPARK Institute; Karen Biddle Andres, Project Director of Retirement Savings Initiative at the Aspen Institute; and Jason Fichtner, PhD, Senior Fellow Alliance for Lifetime Income and Retirement Income Institute.

The group discussed how data (e.g., who's participating in plans and how they are participating as well as ownership, access and sharing of data) is critical to identifying improvements to the system and enabling collaboration that leads to better outcomes. The cohort concluded that "retirement readiness" should be the KPI that holds the industry accountable, and as Karen Biddle Andres shared, "We should evaluate the success of our retirement savings system by not only who has access but also how people are using the system and whether equitable outcomes are produced."

Polling question

What is one key performance indicator that should hold the industry accountable?

50%	21%	17%	12%
Retirement readiness	Participation	Narrowing the racial wealth gap	Retirement savings

The cohort identified retirement readiness as the key indicator that holds the retirement industry accountable.

Summary

As the industry innovates and disrupts to meet consumer needs, firms must ask the critical question: How will we create long-term value and participate in an ecosystem focused on reframing retirement? Since the Innovation Studio, the EY retirement team has been helping session participants answer a number of key questions that will shape their future strategies:

- Where are there underserved markets, how do we serve those markets at scale and what is the size of the opportunity? Are pooled employer plans the answer and what will it take to drive adoption? How should strategic alliances be considered?
- What role should employers play in providing lifetime income solutions? How does the industry come together to simplify retirement income offerings? What does the industry need to do to educate advisors, plan consultants, plan sponsors and participants on constructing in-plan income solutions?
- How do innovations in real-time payments, embedded finance and blockchain technology impact our retirement operations functions?
- Can advanced technologies reduce complexity and improve the experience associated with retirement income generation?
- How is the role of the financial advisor evolving? How can financial advisors better provide advice across all stages of a client's health and wealth life? How will compensation models need to shift and what capabilities will be needed?
- How does our defined contribution system need to evolve to better support choice of provider and new employment models?
- How do we innovate with policy makers to make our retirement system work better for all?

[1] "Nearly 3 in 5 Americans (59%) want financial advice but are not sure where to get it, according to intelliflo survey," PRNewswire, 02 March 2022.

The Reframing retirement cohort identified the following "steps for change" to help the industry reduce barriers and deliver consumer needs. Several retirement organizations, including those represented on the roundtable, present opportunities for the industry to work together and further these "steps for change."

Steps for change	
01	Broader **financial literacy and education,** especially focused on the underserved
02	Improved **B2C engagement** through behavioral science-based techniques and simplified **nomenclature** aligned with customer outcomes and life goals
03	**Customer data ownership** (including easy portability of assets, cyber protection) and simplified financial "dashboards" (e.g., how am I doing?)
04	**Decumulation and outcome advice** methodology (including auto annuitization and withdrawals), along with associated industry compensation changes
05	Potential **auto enrollment** at federal and state level to (1) engage self-employed and gig workers, and (2) improve savings rate
06	**Marketplace and ecosystem of financial solutions** (including health, career, wealth and life event planning, retirement plans), including private market optionality and longevity protection
07	**Innovating with the policymakers and regulators,** including modifications to existing regulations, to better enable personalized advice
08	**Modernize retirement platforms** to personalize customer experiences and scale operations, leveraging advanced technologies and data capabilities

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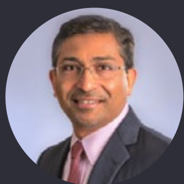

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