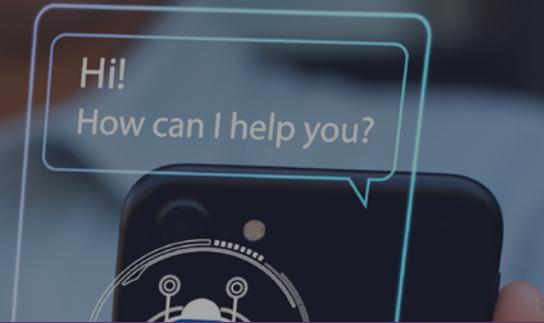


# The Rise of RetireTech



## INTRODUCTION

Today's markets have witnessed the growth of FinTech and InsureTech, the technology behind the finance and insurance industries, respectively. One would logically assume that "RetireTech" is merely the latest buzzword for retirement industry technology, but it is so much more; RetireTech is a vibrant and evolving ecosystem of startups, product innovations, and digital-first platforms that provide new types of servicing, advice, planning, and risk management tools for savings, investments, and retirement.

In this Insight, we will examine the rise of RetireTech, areas that are seeing the most innovation, and what solutions are being developed to help future retirees of all ages build the savings and resources for their diverse retirement needs.

## THE RETIRETECH LANDSCAPE

With the baby boom generation collectively approaching retirement age, the growth of RetireTech could not arrive at a more opportune moment. While one would not typically associate baby boomers with technology, increasing customer service demands require digital enhancements that boomers are slowly adopting. RetireTech also caters to the needs of retirement savers in their 20s, 30s, and 40s, who are very comfortable with technology and consumers of 401k and annuities products, as well as participants in many public pension systems nationwide. Other niche audiences include freelancers, participants in the gig economy, and other nontraditional workers who may not have access to standard retirement safety nets and need solutions that cater to their circumstances. The growth of RetireTech is also as much about using technology to enhance retirement offerings and create access, as well as to promote these products to younger and more tech-savvy consumers.

However, RetireTech is also about the weightier issues like lifestyle, lifespan, and legacy. These are serious considerations for participants as they plan for their long-term futures. And since retirement today may look much different from person to person, varied and specialized solutions are more important than ever. These solutions must also be dynamic, iterative, and customizable, especially since a recent study indicates that one in every three Americans has no retirement savings; 56% have less than \$100,000, and the lack of enough savings to support retirement exists across all categories.<sup>1</sup>

## INNOVATION HOTSPOTS

Today, significant innovation is percolating in the 401K/defined contribution space, where plan design and operation enable plan sponsors to add new features and income options, either in-plan and/or accessed by participants separately. Some of these include assisting employees in building emergency funds via Roth plans or other after-tax contribution provisions or linking student loan debt repayment to defined contribution plans, allowing employees to work down their loans while still benefiting from employers' contributions toward retirement.<sup>2</sup> 401k/defined contribution recordkeepers often want to surround legacy administration platforms with new kinds of services and technologies that can increase engagement with employees.

Within the public pension arena, startups and established providers have been reinventing the member digital experience, to drive additional self-service engagement among all members, and consequently reduce the manual workload among pension system staff. Other innovations with campaign and CRM technology are driving targeted and consistent communication to active and retired public pension members. Enhancements include omnichannel capability to allow for access on smartphone and tablet devices, upgraded security features such as end-to-end encryption for secure email and multifactor identification, and increased scalability overall.

One example of an innovative and new retirement solution is a tontine, a type of hybrid pension agreement that pools and diversifies mortality risks across participants and pays out an income stream.<sup>3</sup> Tontines differ from defined benefit plans and annuities because they are not guaranteed and therefore charge lower costs, but are similar to annuities, where the participants bear investment risk and some or all of the mortality risk.<sup>4</sup> Because there is no guarantee, tontine income streams are variable and thus riskier than fixed annuities which are often stable in nominal dollars, but they can also pay out more than fixed annuities due to their lower costs.<sup>5</sup>

## THE AI OPPORTUNITY

Artificial Intelligence (AI) and its adaptable, human-centered technology have had a big impact on the RetireTech scene, in particular, its capabilities to model what/if scenarios and benefits calculations, as well as real-time analytics for liquidity forecasting and overall fund management. Public and private retirement programs have implemented chatbots for quick, virtual member and customer support. Future use cases of AI in digital-first platforms for advisors, insurers, and pension administration systems include improving an individual's retirement saving investment strategy, through personalized portfolio recommendations.<sup>6</sup> AI can also potentially identify populations that will not be able to retire due to insufficient savings, or those that will face other critical decisions, such as what to do when saving into a retirement program is no longer economically efficient.<sup>7</sup> In these instances, AI can be used to target members who need education or better follow-up.

## CONCLUSION

RetireTech is not only here to stay, but it's just getting started. Today's RetireTech ecosystem is helping insurers, technology providers, and investment professionals anticipate what retirement problems consumers and plan sponsors will have and how they can solve them proactively. These same constituents are also using RetireTech to redefine the factors that drive retirement planning, product purchasing decisions, and engagement with retirees and pre-retirees. For all consumers, RetireTech will enable new opportunities and the financial security to live out their golden years with comfort and peace of mind.

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- 1 Insuretech Spotlight: Retirement Services, Aite-Novarica Group, 2022
- 2 "Employers Set Sights on Innovative 401(k) Plan Design Changes," National Association of Plan Advisors, December 2020
- 3 "Robo Tontines Can Help with Asset Decumulation During Retirement," Pension Research Council, Wharton School of Business, University of Pennsylvania, April 2022
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