Retirement Savings and Role of Innovation and Technology

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The Individual’s Role in Retirement Saving Is Growing

**Old paradigm**
- Government pension
- Occupational pension—defined benefit and some defined contribution

**New paradigm**
- Government pension (possibly at a later age, smaller amount)
- Occupational DB or DC (but shifting to DC)
- “3rd pillar” savings by individuals
  - China
  - Europe (pan-European personal pension product)
Why Are We Seeing These Changes?

» Prolonged low-interest rate environment
» People are living longer
» People are living longer in retirement
  » Inverting pyramid: the base of workers “supporting” retirees is shrinking compared to a growing number of longer-living retirees
Our Aging World

Projections for population share aged 65 or older, 2015 and 2050

Globally

Europe

China

Source: Citi GPS (2016). The Coming Pensions Crisis; United Nations
In the US System, Account-Based Saving Has Risen in Importance

US retirement assets and ICI summary of events and legislative changes, 1974–2018

- **Annuities**
- Government DB plans
- Private-sector DB plans
- IRAs
- Other DC plans
- 401(k) plans

1974: ERISA is passed, providing meaningful protections for DC and DB plan participants and creating IRAs.

1975:

1976:

1977:

1978:

1979:

1980:

1981: Proposed 401(k) regulations allow employees to defer income until retirement.

1982:

1983:

1984: McDonald’s becomes the first company to automatically enroll employees into its 401(k) plan.

1985:

1986:

1987:

1988:

1989:

1990:

1991:

1992:

1993:

1994: The first target date fund is created.

1995:

1996:

1997:

1998:

1999:

2000:

2001: EGTRRA increases retirement plan contribution limits and introduces catch-up contributions for older workers.

2002:

2003:

2004:

2005:

2006: PPA encourages automatic enrollment and allows for use of target date and other hybrid funds as default investment options. It also makes Roth 401(k) permanent.

2007:

2008:

2009:

2010:

2011:

2012:

2013:

2014:

2015:

2016:

2017:

2018:

$27.1T

$8.8T

$2.3T

$5.2T

60%

Note: For definitions of plan categories and a complete list of data sources, see Tables 1 and 6 in “The US Retirement Market, Fourth Quarter 2018.” Some data are estimated.

Australia’s DC System Has Also Been Growing

Superannuation assets, A$ billions

Note: Data are as of June in each year.
Source: Monash University, Australian Centre for Financial Studies reporting Reserve Bank of Australia data
Big Markets Attract Providers…and Regulators

An area of interest and focus—provision of advice:
» Europe MIFID II
» UK advice around “pension freedoms”
» US Department of Labor’s “conflict of interest” rule
» Australia—the Royal Commission’s report of 2019
AU Royal Commission Report: Overview

» Outlines findings of misconduct and failure of ethics, culture, and governance
» 500-page report makes 76 recommendations
» May lead to redrawing of the fund distribution and financial advisory landscape
Royal Commission Report: Recommendations on Financial Advice and Superannuation

» Increase disclosure and scrutiny of fees
» Reduce conflicts for advisers and superannuation trustees
» Prohibit unsolicited retail sales of superannuation products
» Establish new disciplinary system
Tech Has Potential to Help Individuals Ask Right Questions, Reach Better Conclusions

Decisions, decisions

- How much to save? When should I start to save?
- What to invest in? Risk profile, fees? Rebalance as one ages?
- When could I take my money out? How much? In what form?
Technology Is Part of Asset Allocation and Advice Delivery

Sources: Investment Company Institute; inspired in part by AlphaHut.net
Technology Also May Boost Financial Inclusion

“Cashless” societies—e.g., China
Societies where mobile phone use is a way of life, reaching populations without traditional bank access—e.g., India, Africa
Nonstandard workforce—e.g., gig economy workers, Uber drivers
Saving via innovations
  » Saving by rounding up
  » Financial education through gamification
  » Engagement and action “while online” and “in-app”
Internet Access Is High Across All Ages of US Households

Percentage of US households with internet access by age of head of household and ownership status, 2018

<table>
<thead>
<tr>
<th>Age of Head of Household</th>
<th>All US Households</th>
<th>Mutual fund–owning households</th>
<th>US households with defined contribution plan accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Younger than 35</td>
<td>88</td>
<td>95</td>
<td>93</td>
</tr>
<tr>
<td>35 to 49</td>
<td>88</td>
<td>98</td>
<td>97</td>
</tr>
<tr>
<td>50 to 64</td>
<td>82</td>
<td>94</td>
<td>93</td>
</tr>
<tr>
<td>65 or older</td>
<td>64</td>
<td>85</td>
<td>81</td>
</tr>
</tbody>
</table>

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau; see Figure 7.15 in 2019 Investment Company Fact Book at [www.icifactbook.org/](http://www.icifactbook.org/)
US Millennials Often Lead on Adopting Tech, but Boomers and Gen Xers Follow Closely

Percentage of US adults by generation, 2018

  - Own a smartphone: 92%
  - Own a tablet computer: 54%
  - Use social media: 57%

- **Gen X (1965–1980)**
  - Own a smartphone: 85%
  - Own a tablet computer: 64%
  - Use social media: 57%

- **Baby Boom (1946–1964)**
  - Own a smartphone: 30%
  - Own a tablet computer: 25%
  - Use social media: 23%

- **Silent (before 1946)**
  - Own a smartphone: 67%
  - Own a tablet computer: 52%
  - Use social media: 23%

Individuals Increasingly Manage Their Money by Phone

Percentage of US adults using a mobile phone to do the activity indicated within the past 12 months, 2018

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access a bank account</td>
<td>58</td>
</tr>
<tr>
<td>Deposit a check using a mobile phone camera</td>
<td>37</td>
</tr>
<tr>
<td>Pay for something in store (for example, Apple or Google Pay)</td>
<td>19</td>
</tr>
<tr>
<td>Send money to a person (for example, Venmo or Zelle)</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: 2018 Federal Reserve Survey of Household Economics and Decisionmaking
## Individuals Use Phones for a Variety of Financial Tasks

### Percentage of US adults with a bank account and a mobile phone, 2015

<table>
<thead>
<tr>
<th>Task</th>
<th>Task-only user</th>
<th>General user</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check balance or transactions</td>
<td>9</td>
<td>40</td>
</tr>
<tr>
<td>Receive an alert</td>
<td>7</td>
<td>24</td>
</tr>
<tr>
<td>Locate ATM or branch</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Transfer money between accounts</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>Pay a bill</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Deposit a check electronically</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>Send money to relatives or friends in the US</td>
<td>7</td>
<td>1</td>
</tr>
</tbody>
</table>

### Informational tasks

- Check balance or transactions
- Receive an alert
- Locate ATM or branch

### Transactional tasks

- Transfer money between accounts
- Pay a bill
- Deposit a check electronically
- Send money to relatives or friends in the US

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Robo Is in Its Early Stages in the United States

Percentage of US households by ownership status and robo-advice awareness, 2016

- All US households
- ETF households
- Retail mutual fund households

<table>
<thead>
<tr>
<th>Aware of concept</th>
<th>Aware of specific robo firms</th>
<th>Currently use robo-advisers</th>
<th>Likely to use robo-advisers in the future</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>24</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>19</td>
<td>45</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>35</td>
<td>9</td>
<td>2</td>
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<td></td>
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</table>

Note: Survey respondents were asked each of these questions regardless of how they answered the other questions. SBI’s MacroMonitor Survey was conducted online from June to August 2016. Source: SBI’s MacroMonitor; see www.ici.org/pdf/rpt_18_etf_households.pdf
Panel Discussion—Advice, Education, Technology, and Beyond

» James Richardson, Brewin Dolphin
» Samantha Seaton, MoneyHub