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BOOK REVIEW

The Disruptive Impact of Fintech on Retirement Systems

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Reviewed by Anna M. Rappaport, FSA, MAAA

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Editor's note: The Disruptive Impact of Fintech on Retirement Systems*, edited by Julie Agnew and Olivia S. Mitchell, is a compendium of research studies sponsored by the Pension Research Council at The Wharton School.*

As an actuary and phased retiree, I have seen the incredible evolution of technology in my lifetime. The options available to me in my personal and professional life have transformed because of access to technology. There is always technology that I do not know about, and when I discover it, I am often amazed.

As we work through the COVID-19 pandemic, technology is even more important because so many advisors are working from home and conducting client meetings online. Those at larger firms generally use technology chosen by their firms; independents must find their own technology solutions. All advisors are responsible for the advice they give clients, but the technology they use can influence that advice.

The Disruptive Impact of Fintech on Retirement Systems offers advisors information they can use about technology for financial services, specifically as it relates to retirement. It provides insights about legal requirements and use of technology, data security, and quality control; and it covers a wide range of applications. It also gives readers a valuable big-picture look at technology issues, because although the specifics of the technology are always evolving, the big-picture issues are here to stay.

Topics covered include the consumer perspective, robo-advice services, decumulation issues, market tools, big data and health, improving outcomes, data security, and regulation. The book is based on research from ten different authors (or sets of authors) who are academics, attorneys, economists, and business professionals.[1]

Retirement planning, saving, and management require many decisions. Automated tools—integrated with advice or free-standing—can be very helpful, and these tools are evolving. Tool development may take into account where individuals are and how they see things, data analysis, and retirement planning theory.

Tools can take the form of apps, integrated services from robo-advisors and other firms, start-ups, or other sources. Tools can be provided to advisors, directly to consumers, to customers of financial services companies, to employee benefit plan participants as part of plan administration services, to employees as part of financial wellness offerings from employers, etc. Some tools offer broader financial planning and others offer much more specific solutions.

A wide variety of tools provide support with specific decisions. Some may be offered through robo services, some may come from specialized services, and some may be free-standing. Examples include tools that address Medicare Part D analysis, Social Security optimization, retirement income, life insurance purchase, traditional versus Roth IRA analysis, spend-down support, and annuity analysis.

Below I outline several topics from the book that I found helpful and that I think are important to advisors.

ROBO-ADVICE

- Robo-advisors automate part or all of investment management and planning. They have packaged processes that advisors and investment managers have used for many years and offer a variety of business models and services. All use algorithms to make decisions, usually investment decisions. Some decisions are made automatically and others allow some choices.
- Robo-advice can be viewed as part of a continuum rather than a revolution. Robo-advice as a separate service has evolved into robo-advice as a component of integrated services. It is often combined with advice provided by an advisor.
- Some of the trends affecting robo-advice include:
  - More firms entering the market
  - International growth
  - Traditional firms entering the market
  - Hybrid models
  - Use of own-firm investment products within the accounts managed
  - Growing diversity in specific offerings

- Robo-advice is cheaper than conventional in-person advice, but the cost of investment management still includes charges embedded in the investments. Costs of different services vary widely; one chapter reports a range of 0–89 basis points, with 25–30 basis points as typical.
- Providing automated services for the decumulation period is much more challenging than for the accumulation period. About 1,000 firms in the United States provide some type of robo-advice for the accumulation period, but many fewer support the decumulation period.
- Robo-advice is a way to bring investment advice and services to investors with very low balances, but the investor must be motivated to seek the advice. Although low-balance individuals need to invest, they also tend to have a variety of other household financial management and planning issues.
- There is variation in the span of advice. Some approaches consider the specific account only; others allow for aggregating information about other assets, sometimes only for the individual and sometimes for the household. Some focus on investments only and some on broader issues. Some consider accumulation only and others consider decumulation as well.

DECUMULATION ISSUES

- There is no consensus among experts about the right approach to decumulation. Setting it up correctly requires some one-time decisions that may be irreversible.
- Setting up decumulation requires lots of decisions and is stressful for consumers. They need to consider assets from all sources and all household needs, such as family members needing help, which is rather common and easily overlooked. Social Security claiming can be a critical decision for many households. Setting up decumulation can be complex, and it requires clear and holistic thinking for a good result.
- Some firms support the decumulation period, but most robos do not. The chapter "Behavioral Finance, Decumulation, and the Regulatory Strategy for Robo-Advice" lists decumulation support services.
- Automated tools available for decumulation planning include Social Security timing evaluation, Medicare Part D plan evaluation, annuitization support, and spend-down support.
- A small number of firms offer specialized services for decumulation, an area that is likely to grow.
- Hybrid approaches that include an advisor are particularly well suited for the decumulation period. This seems to be the most likely model for decumulation.
- For accumulation, there is widespread acceptance of fees based on assets under management. There are big questions about the appropriate business and compensation models for the decumulation period.

CUSTOMER NEEDS AND SEGMENTS

- It is important to meet people where they are. Many struggle with financial literacy, and it is not uncommon for people to have problems balancing their checkbooks.
- Many households have trouble budgeting, managing spending and debt, and saving. These issues need to be under control before people can begin investing and retirement planning. Many employers have adopted financial wellness programs; some integrate retirement planning.
- Some algorithms are pretty standard for all or most customers. Others are tailored to the customer situation. Software varies with regard to how much tailoring it provides.
- Aging populations face particular challenges using technology-based solutions, including a lack of trust in technology, digital marginalization, and lower digital literacy and confidence. Society of Actuaries research with individuals age eighty-five and older confirms the lack of trust and the need many in this group have for help handling finances as well as day-to-day money management.

REGULATORY ISSUES

Several chapters include a focus on legal issues and how the law applies to automated approaches. The chapters offer analysis, but they also raise questions. Legal requirements are important to all advisors, and apply differently, depending on the way the advisor is licensed. Some key points include the following:

- Fiduciary rules apply to robo-advisors.
- Two major areas of regulation are fiduciary rules and disclosure. Conflicts of interest can be a concern, but this is not as big an issue as with traditional advisors.
- The Securities and Exchange Commission regulates registered investment advisers. Robo-advisors must register just as human advisors must register. The Financial Industry Regulatory Authority does not have jurisdiction over many of the robo-advisors.
- Some big general questions include: What is different about automated approaches? Should there be more or different supervision of the algorithms for robo versus traditional advice and why?

TIPS FOR ADVISORS

The Society of Actuaries has two studies looking at retirement software and management of post-retirement risk.[2] Both found significant variability in how software handled different situations; results varied, and quality control was mixed. These studies point to the need for advisors to exercise care in the choice of the software they use. Some tips for advisors include the following:

- Technology offers opportunities to streamline work, expand services, and bring advice to more clients, but it also may require adjustments to business models.
- Technology creates challenges. Tools fit particular planning points, but they may not fit a client's specific situation. Work-arounds that maintain quality control can be difficult.
- Robo-advice can be used directly by individuals, or advisors can help. Advisors need to figure out how to add value.

- The market is always changing, and it is challenging to stay up-to-date and know when to upgrade.
- Due diligence is critical to ensure that the solution fits the problem. Has the tool been properly vetted? Is it appropriate? Advisors are responsible for their advice, so they need to pay attention to the advice their tools produce.[3]
- Technology solutions may not work for clients who are not tech savvy.
- Robo-advisors are subject to fiduciary rules, so pay attention.
- Data security and privacy require vigilance.

Anna M. Rappaport, FSA, MAAA, is a phased retiree who chairs the Society of Actuaries Committee on Post-Retirement Needs and Risks. She is an actuary and futurist who specializes in the impact of change on retirement systems, women's retirement issues, and workforce issues. She serves on the Retirement Management Journal *editorial advisory board. She earned an MBA from the University of Chicago. Contact her at anna.rappaport@gmail.com.*

ENDNOTES

1. The book discusses a number of software packages and technology approaches in its individual chapters, with specifics that date to May 2018, but the book's themes remain valid. For an up-to-date source on technology for advisors, I suggest visiting Michael Kitces's website, www.kitces.com, which periodically updates its technology map and discusses new developments. See for example, Michael Kitces, "The Latest In Financial Advisor #FinTech (July 2020)," (July 6, 2020), https://www.kitces.com/blog/the-latest-in-financial-advisor-fintech-july-2020/.
2. Society of Actuaries, LIMRA, and INFRE, "Retirement Planning Software" (2003), https://www.soa.org/globalassets/assets/files/research/projects/retirement-planning-software-report.pdf and Society of Actuaries, "Post-retirement Software and Retirement Risks" (2009), https://www.soa.org/globalassets/assets/files/research/projects/research-pen-retire-planning-soft-highlights.pdf. Although both of these studies are several years old, the messages in their conclusions with regard to quality control, variable findings, and taking care remain important.
3. Code Principal Number 4 of the Investments & Wealth Institute *ode of Professional Responsibility* requires Institute professionals to "provide clients information needed to make informed decisions." The discussion on page 260 of the RMA Curriculum, 6th edition says: "The Institute professional may rely upon other sources for information as part of the research process. However, the Institute professional is expected to assess the reliability of the source and should attribute the source as appropriate. Recommendations should be based on reasonable and adequate basis, supported by appropriate research and investigation."

ANOTHER RESOURCE ABOUT TECHNOLOGY

The Society of Actuaries in partnership with Financial Finesse published a guide in 2019 to help advisors, plan sponsors, and individuals think about choosing tools and software. Different packages meet different needs, require different input, and provide different types of information. The guide is "Retirement Planning Tools" (https://www.soa.org/globalassets/assets/files/resources/research-report/2019/2019-retirement-tools.pdf).

REFERENCE

Agnew, Julie, and Olivia S. Mitchell (eds.). 2019. *The Disruptive Impact of Fintech on Retirement Systems*. New York: Oxford University Press.

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