Four innovative ways to improve retirement savings

KPMG Insights

How government, enterprises and technologists can innovate retirement savings to improve Americans' financial security

Advances in science, government policies and healthy behaviors have increased life expectancy in the United States considerably over the last 60 years, from 69.7 years in 1960 to 77.0 in 2020.[1] But despite recent dips in American mortality rates, American retirement strategies have not been keeping up with the life expectancy improvements we've already seen. This may be why, between 2002 and 2023, the percentage of non-retirees expecting to live comfortably in retirement saw a significant decrease from 59% to 43%, according to Gallup.[2] In fact, according to the Federal Reserve, only 75% of non-retirees have any type of retirement savings.[3] Is America facing a retirement savings crisis?

A recent report published by Pew Charitable Trusts and Econsult Solutions projects that the unprecedented growth in the United States' elderly population (65+), which is projected to increase by 50% from 54.1 million in 2020 to 81.5 million in 2040,[4] will lead to an average annual income shortfall for elderly households of more than $7,000 in 2040.[5] This is expected to cost state and federal governments $1.3 trillion by 2040 because of increased pressure on public assistance programs, reduced tax revenue and a shift in financial burden to a shrinking population of working-age taxpayers.[6]

The data and trends suggest that we need to prioritize retirement planning sooner rather than later. But in practice, retirement planning often falls to the bottom of Americans' to-do lists. To close this gap, it's time to further innovate retirement savings to better meet individual needs and promote financial security in retirement. We propose four innovative solutions:

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[1] Elizabeth Arias and Jiaquan Xu, "United States Life Tables, 2020," National Vital Statistics Reports 71, no. 2 (August 8, 2022): 51, https://www.cdc.gov/nchs/data/nvsr/nvsr71/nvsr71-01.pdf.

[2] Megan Brenan, "Americans' Outlook for Their Retirement Has Worsened," Gallup, May 25, 2023, https://news.gallup.com/poll/506330/americans-outlook-retirement-worsened.aspx.

[3] Board of Governors of the Federal Reserve System, Economic Well-Being of U.S. Households in 2021, May 2022, 79, fig. 43, https://www.federalreserve.gov/publications/files/2021-report-economic-well-being-us-households-202205.pdf.

[4] The Pew Charitable Trusts and Econsult Solutions, The Cost of Doing Nothing: Federal and State Impacts of Insufficient Retirement Savings, May 2023, 3, https://econsultsolutions.com/wp-content/uploads/2023/05/Impacts_of_Insufficient_Retirement_Savings_May2023.pdf.

[5] Pew, Insufficient Retirement Savings, 21.

[6] "America's Retirement Savings Crisis Could Cost Federal and State Governments an Estimated $1.3 Trillion by 2040," National Conference of State Legislatures, updated July 17, 2023, https://www.ncsl.org/labor-and-employment/state-and-federal-impacts-of-insufficient-retirement-savings.

01 Automatic enrollment and reenrollment retirement plans

While traditional retirement plans require individuals to actively enroll and make savings decisions, other retirement plans automatically enroll employees unless they choose to opt out. These automatic plans have emerged as a compelling strategy to enhance participation and savings rates, leveraging the power of inertia and behavioral biases to encourage participation and promote savings.

The Consolidated Appropriations Act of 2023 (HR 2617) was signed into law in December 2022, and includes important provisions affecting retirement savings plans, which are intended to build upon the 2019 Setting Every Community Up for Retirement Enhancement (SECURE) Act.[7] These provisions, collectively referred to as SECURE 2.0, offer many new benefits designed to improve employee retirement outcomes by making it more attractive for employers to offer retirement plans. Relevant elements include requiring plans established after December 29, 2022, to automatically enroll new employees, and to escalate their contributions annually up to 10% to 15%. Positive outcomes for employees would likely be enhanced, however, if the legislation were made effective to plans established before December 29, 2022, effectively bringing pre-existing plans into the auto-enrollment and escalation regime.

02 Creative product design that stresses optionality

For many, saving for retirement may seem like a distant goal cloaked in uncertainty. The concern: We don't know what we are saving for — mortality, morbidity, longevity or an old-fashioned emergency. Retirement products that provide the option to use the plan for immediate life events such as emergencies or other unforeseen events can encourage saving, individually or through an employer. Then the solution becomes: Just start setting money aside, and the plan will optimally address any life events as they come to pass.

Offering single-premium immediate annuities (in plan) can also act as a form of longevity protection, and having these included as a qualified default in a plan could make them more affordable. Offering easy-to-understand target-date funds might also increase participants' comfort with risk and improve their planning.

> **"To truly expand access to retirement security for more people, we must find ways to incorporate the best practices and key features of traditional pensions into today's retirement system to help individuals avoid the potential hazards of longevity risk and market volatility risk on otherwise well-balanced financial plans.** It is critical that the industry co-create new ways to protect the assets that reside within qualified defined contribution retirement plans, as well as the future income streams they will need to generate in retirement."
>
> **— Rob Falzon**
> **Vice Chair, Prudential Financial, Inc.**

03 Gamification of retirement savings

Incorporating game-like elements into retirement savings may be a powerful tool to transform a daunting task into an engaging and rewarding journey. Gamification's allure lies in its ability to tap into the inherent human desire for play, competition and achievement. By incorporating elements such as points, badges, leaderboards and challenges, gamified retirement plans offer an interactive and stimulating experience.

Some key elements for gamified retirement plans include:

- **Goal-setting:** Participants set goals and track their progress through visual tools, providing a clear sense of direction and motivation.
- **Rewards:** As reinforcement for positive behavior, participants receive rewards and incentives, such as badges, points or even real-world discounts and exclusive benefits, encouraging continued engagement.
- **Financial literacy:** Interactive games, quizzes and simulations can make complex financial concepts more accessible and understandable, empowering more informed decision-making.
- **Social interaction:** Participants can connect with peers, share achievements and participate in challenges, enhancing accountability.

[7] KPMG LLP, KPMG Report: Summary and Observations of Tax Provisions Under SECURE Act 2.0, February 2, 2023, https://assets.kpmg.com/content/dam/kpmg/us/pdf/2023/02/tnf-kpmg-report-secure-act-feb-2-2023.pdf.

04 Artificial intelligence augmentation of retirement savings

Artificial intelligence (AI) has emerged as a transformative force and, in retirement savings, can empower individuals to make informed decisions, optimize their retirement savings strategies and safeguard their financial future. Encouragingly, as AI capabilities continue to advance, the applications in retirement savings will only grow.

Key features of AI augmentation of retirement savings might include:

- **Personalized recommendations:** AI can analyze an individual's financial data and goals to provide tailored recommendations for retirement planning, suggesting optimal contribution levels, investment strategies and retirement income targets.
- **Intelligent asset allocation:** AI can also analyze historical market data, economic indicators and individual risk preferences to dynamically adjust the allocation of assets, maximizing returns and managing risks related to an individual's financial goals.
- **Behavioral analysis to encourage positive behaviors:** Leveraging AI to analyze patterns in financial data and individual decision-making can help identify behavioral biases and provide personalized recommendations to encourage informed saving strategies.
- **Personalized customer service:** AI-powered chatbots and virtual assistants can provide personalized customer service, answering questions, providing account information and assisting with queries to enhance the participant experience and eliminate pain points.
- **Reduced costs:** Pricing is affected by the costs of marketing these investment products to appropriate audiences. Given AI's ability to efficiently analyze huge volumes of data and craft effective marketing materials, there is an opportunity to reduce the cost of some investment products and make them more accessible to larger customer segments.

Importantly, while AI can help people make retirement choices, it cannot do it for them. Human engagement must remain at the forefront.

Regulatory action as a catalyst for better retirement plans

The four innovative solutions outlined above cannot occur in a vacuum. They require buy-in from the government, enterprises and technologists. Importantly, there have already been great strides in U.S. regulatory action to address the challenges in increasing retirement savings for Americans of all income and education levels.

Under SECURE 2.0, employers who start new retirement plans after December 29, 2022, will, beginning in 2025, be required to automatically enroll employees in their retirement plan at a rate of at least 3%, but not more than 10%, of eligible wages. New companies (in business for less than three years) and employers with 10 or fewer workers are excluded from this requirement. Additionally, employees can choose to opt out.[8]

Beginning in 2025, for new retirement plans started after December 29, 2022, contribution percentages must automatically increase by 1% on the first day of each plan year following completion of a year of service until the contribution is at least 10%, but no more than 15%, of eligible wages. Exceptions apply for governmental and church plans, businesses with 10 or fewer employees and employers that have been in business for less than three years.[9]

Given the success of auto-enrollment at introducing people to saving for their retirements and other life events, extending the provisions of SECURE 2.0 to apply to December 29, 2022, plans would bring similar benefits to all those plans that don't presently enjoy automatic enrollment or escalation. Similarly, raising contribution rates beyond the current SECURE 2.0 cap of 15% would provide workers with potentially more savings when they need them most.

[8] KPMG, SECURE Act 2.0, 2.

[9] KPMG, SECURE Act 2.0, 2.

Closing the retirement savings gap

Many Americans today are not ready for retirement. While recent regulatory changes demonstrate a societal drive toward promoting retirement savings, there is still ample opportunity for innovation to improve savings outcomes at both the individual and employer level. While these authors do not purport to have solutions to all of these complex issues, we hope to highlight the opportunity for further collaboration between policy makers, enterprises and innovators, powered by cutting-edge technologies, to pave the way for a more secure and prosperous retirement future for every American.

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