THIRD PRIZE: Closing the Retirement Readiness Gap

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Minority communities in the US have widely diverse experiences when it comes to retirement preparedness. There is evidence to suggest that progress is being made in the US, but the impacts of 2020 may have impeded this advance and may slow further gains relating to financial awareness, savings levels, access to financial advice and investment in retirement vehicles. These systemic disparities are undeniably complex, requiring a range of governmental and private involvement to tackle holistically. That said, we observe that insurance carriers and financial services organizations (FSOs) are in a strong position to engage underserved minority communities in the US and help close America's retirement preparedness gap. To do this, carriers and FSOs will need to leverage innovative new technologies, methodologies, and strategies specifically tailored to better reach minority communities.

While the COVID-19 pandemic has had a myriad of negative effects on the economy, one silver lining has been the drastic increase in American household savings rates. The typical savings rate for Americans of the last decade (2010-2019) has stayed in the 6-8% range. In April 2020, savings rates exploded on average, seeing a 5x+ increase to over 32%[i]. These rates have since leveled off somewhat but remain nearly double the 10-year pre-pandemic range, averaging 13.7% in Q4 2020. The implications for financial wellness prior to March 2020 were positive, given that higher savings rates translate to new opportunities to bolster retirement savings dollars. From an insurer's perspective, the market for tax-deferred vehicles (e.g., annuity products) and retirement products in the US has rarely seen this level of focused preparedness – perhaps allowing for accelerated growth in the space.

Unfortunately, these positive trends in Americans' savings habits have not been ubiquitously distributed across the population. The pandemic has presented Americans of all income levels with financial challenges – but these effects have been felt most distinctly by lower income families, and in turn they have disproportionately impacted communities of color. A recent study released by the US Census Bureau (CPS ASEC, 2019) indicates that while African American and Hispanic/Latino pre-pandemic poverty rates were historically low on a time-trended basis (18.8% and 15.7% for African American and Hispanic/Latino Americans respectively), these figures hide disproportionate over-representation as a percentage of the broader population of impoverished Americans. In 2019, African American and Hispanic/Latino Americans were 1.8x and 1.5x more likely to have incomes under the poverty line respectively. Moreover, 2019 median incomes were 25-40%[ii] lower in African American and Hispanic/Latino households – all of which translated to lower overall savings rates compared to the broader population. In considering the implications of these trends, the verdict is mixed. On one hand, pre-pandemic income levels in minority populations across the US had been at or above historic levels – reflecting a generally healthy forward economic outlook. The flip side of the coin is that the disproportionate economic impacts of COVID-19 on lower income communities may once again widen income and savings disparity in ways that threaten individual's ability to save for their envisioned retirement.

Additional data and long-term studies will be needed to assess demographic impacts further, however this does not preclude insurers from taking an optimistic take on their ability to better address the unique set of retirement needs for people of different races and ethnicities. Looking forward, there is a clear need in the marketplace to develop strategies and associated products to encourage and enable African American and Hispanic/Latino households to engage in retirement preparation. To illustrate this, take a recent Boston College center report that indicates that while 54% of White workers took advantage of employer sponsored retirement plans, only 46% of African American workers and 34% of Hispanic/Latino workers did the same. These figures are anecdotal on their own, but the trend is confirmed by other reports as well. A “2020 Retirement Risk Readiness” study commissioned by Allianz Life

showed that 52% of minority survey participants said they “believe they have plenty of time to save for retirement” but less than half of these participants had specific aims in mind or could report owning any investments or accounts associated with retirement security[iii].

The Widening Retirement Readiness Gap

The opportunity to address the retirement readiness gap in minority communities is quite large but requires new thinking and approaches to reach populations with a different set of needs. Life and Annuity carriers are in a prime position to address three key tenets of a solution that can begin to close the gap. We observe the following solution pillars:

- **01. Innovative Education for a Digital World:** Minority communities report less overall financial awareness and have less access to education[iv]. The entry point for better engagement with minority communities begins with innovative means to educate and motivate retirement readiness actions as early on as possible.
- **02. Data-Driven Engagement with Minority Communities:** Less than one third of people of color indicate they are working with a financial professional[v]. A new generation of tailored marketing outreach is needed to inform particularly younger working populations of the need to engage in retirement preparation.
- **03. Aligning Product Design with a Reimagined Customer Engagement Model:** Improved simple product designs with low barriers to entry, incentives to save for the long-term, and paired with supplemental financial wellness support are needed.

01. INNOVATION EDUCATION FOR A DIGITAL WORLD

More and more, the experiences offered to us across industries are tailored to our individual preferences; Netflix movie recommendations, Amazon product suggestions, and the grocery delivery service that eerily yet accurately predicts you may be out of milk. At the heart of these interactions is, of course, Big Data – a resource equally critical to Insurance carrier operations and a growing area of competency enabling capabilities ranging from sales, service, claims, underwriting, and of course, actuarial. This competency and the technologies available to harness Big Data offer innovative potential relating to consumer education as well.

An important side note to keep in mind is that this conceptual model may have less to do with “communities” per se than it does with individual attributes. There are a wide range of characteristics that predict personal behavior – none of which are specifically linked to race or ethnicity. Analytics models that serve as the predictive insight engines aligning educational modules would focus person by person and would very likely not take into consideration a person’s race or ethnicity as a factor in determining their propensity to engage with a particular training module. As a result, the platform would serve merely as a tool to deliver individualized and highly impactful financial education experiences. In order to enable minority communities enhanced financial awareness more broadly, equally tailored awareness campaigns, outreach, and low-barrier-to-entry access points are needed.

The goal of these educational tools at the highest level is two-fold: 1) to improve financial education and behavioral finance awareness; and 2) repeated engagement. Studies going back a decade to 2011 provide empirical evidence confirming that exposure to financial education correlates to improvement in financial decision-making[vi]. Moreover, gamification principles confirm that repeated interactions or “touches” increase the likelihood of transforming previous cognitive biases and in turn, impact financial behavior over the long term.

The investment borne by insurance organizations yields benefit to consumer prospects and carriers alike. Improved minority community engagement develops new inroads to previously untapped consumer segments and may unlock underserved investment dollars. These commitments also serve to align corporate strategy with the broader cultural mission of fighting structural barriers and racial inequality. Perhaps, most importantly, it establishes a relationship with each individual, providing a welcome source of guidance, helping families become more financially secure throughout their lives.

02. DATA-DRIVEN ENGAGEMENT WITH MINORITY COMMUNITIES

As mentioned, new thinking and practical guidance is but one leg of the stool. Closing the retirement readiness gap requires innovation in access and awareness of the availability of support. Here too, data and analytics play a key role. Enhanced data-driven marketing techniques, taking advantage of internal and external carrier data coupled with deep understanding of marketing channel optimization can identify and engage new audiences to maximize awareness and further interaction opportunities. These techniques may be used to identify underserved communities encouraging enhanced financial education, bespoke guidance, and tailored savings opportunities.

How do these approaches really differ? For one, analytics modeling can be used to identify the specific behaviors and attributes to predict a propensity to engage – and can tailor various approaches, contact channel mix, and messaging to boost effectiveness. In addition, there is significant evidence suggesting the need for new approaches, given the scale of the retirement savings gap amongst people of color. The National Academy of Social Insurance reported that African American and Hispanic/Latino Americans over the age of 65 are over 40%-50% less likely to receive income from sources to supplement social security in retirement[vii] - highlighting the need for new methods that efficiently encourage and support preparations for retirement.

The journey towards financial security in retirement is not an easy one, and for many struggling families the seemingly insurmountable goal of a “well-funded retirement” is overwhelming. Experienced financial advisors know, however, that small changes make big differences with enough time and consistency. Reaching out and engaging underserved communities should equally have incremental and achievable aims – to educate, to improve awareness and empower working Americans across races and ethnicities to contribute to financial instruments and accounts that over the long-term will make significant impacts to their retirement incomes. Establishing positive financial habits and forming a relationship with a trusted financial brand early in one’s career can have profound impacts – both in the pragmatic sense of changing savings habits, and also in the way that lower-to-middle income families consider and prioritize long-term wealth building.

03. ALIGNING PRODUCT DESIGN WITH A REIMAGINED CUSTOMER ENGAGEMENT MODEL

A new design thinking needs to start with reimagined fundamental goals in mind. A reset of traditional thinking is needed using *consumer engagement* as the central principle, rather than the savings and accrual functions of standard retirement products. To illustrate, let’s first examine some of the issues of engaging underserved communities:

- Lack of financial education/awareness
- Less disposable income
- Short-term vs. long-term goal setting

- Deterred by product or account complexity
- May be underbanked – meaning many traditional access channels not available
- Less access/no access to employer-based plans (e.g., 401k, 403b)

Some of these challenges seem insurmountable given traditional thinking. However, if we shift towards using consumer engagement as the central principle, there may be new answers. For example, more common access points – like grocery or retail stores – with product features making them highly portable – perhaps accessible via apps or social media might help resolve access inequalities. For example, straight-forward product features linked to target date funds aligned to an individual's desired retirement or a pre-determined age could alleviate the need for in-depth understanding of market risk management. Of course, rapid digital enrollment and low/zero dollar initial funding requirements are essential as well, quickly seizing on consumer desire to participate and reducing abandonment rates.

Importantly, continued consumer engagement over time is equally critical. Success for these products should be at least partially measured in "consumer touches" as much as financial accrual. Product mechanisms that reward continued contributions – social engagement, gamified elements (e.g., unlocking new success levels), point rewards, iterative goal setting, and progressive financial education can all help improve long-term commitment to retirement readiness. Access to periodic live forums, opportunities to connect with other like-minded savers, digital savings reminders, collaborations with other positive life habits (e.g., running/walking, healthy eating, community involvement) are all methods to convert initial interest into longer-term successful financial habits.

The point beyond the initial thought-starters noted above is that new paradigms that focus on reaching underserved minority communities and engaging them outside of traditional channels is key. The exact product architecture and go-to-market strategy, while immensely valuable to first movers who successfully address these challenges, will be the result of these foundational customer-oriented principles.

Conclusion

It does not go unrecognized that systemic issues at play in US communities of color disproportionately discourage participation in retirement preparation. According to the Metropolitan Policy Program at the Brookings Institute, US minorities are significantly more likely to work in low-wage industries like restaurant services, leisure & hospitality, and the often tenuous gig-economy. Given the difficult decisions of paying rent or saving for the future, putting food on the table or contributing to a 401k, it must be noted that there are times where long-term retirement savings is simply not an option. However, the assertion that these scenarios are ubiquitous or constant for working families is equally tenuous. There are opportunities to reengage and to reset financial avenues that, given the opportunity, are proven mechanisms to help advance the broader goals of racial income and savings equality.

Solutions to close the retirement readiness gap exist. This is a problem that can be tackled through the concerted participation of financial services organizations working with communities to understand and address these issues. Improved education, improved access and awareness of available resources, and improved products that simplify those critical initial entry points that get a retirement savings journey started are all tenets of a solution framework. In other words, they are a strategic beginning, and will themselves need to be iterated as successes and challenges present themselves. The strategic argument for FSOs to continue to build and innovate with these goals in mind is clear; there stands large untapped multi-generational markets in real need of enhanced guidance and support to enhance their collective futures. Successfully closing the gap requires investing in the consumer journey identifying engagement points where help and advice can be given, and subsequently designing bespoke products, services and tools that support the many steps to financial security in retirement.

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[i] https://www.bea.gov/data/income-saving/personal-saving-rate
[ii] https://www.census.gov/library/stories/2020/09/poverty-rates-for-blacks-and-hispanics-reached-historic-lows-in-2019.html
[iii] https://www.aarp.org/retirement/planning-for-retirement/info-2020/minorities-less-prepared-for-retirement.html
[iv] https://401kspecialistmag.com/retirement-readiness-at-risk-for-people-of-color/
[v] https://401kspecialistmag.com/retirement-readiness-at-risk-for-people-of-color/
[vi] https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-6419.2011.00705.x ; Journal of Economic Surveys, “Financial Education and Behavioral Finance: New Insights into the Role of Information in Financial Decisions”, Maria Jose Roa Garcia, Oct 2011.
[vii] https://www.nasi.org/learn/socialsecurity/people-of-color