A New View of Pension Reform from Accenture Pensions

Why Retirement Really Begins at 21

Few would argue the imperative for pension reform. Yet reform focused solely on people at retirement age is not enough. Real and sustained transformation demands that agencies engage with people in new ways decades earlier in their lifetimes.

Rethinking the journey

At different phases of their lives, working age and retired people have different needs. As such, social services agencies traditionally have an organizational or customer split between these groups. Pension reform for today demands that agencies break through these boundaries and remake when and how social security pension organizations connect with customers.

In most cases, retirement should be the end of a customer's relationship with pension agencies—not the beginning. Interactions with retirees should be low friction—an initial assessment of entitlement followed by decades of smooth and regular payments. Interactions during working age should be intensive and focused on helping people set up and build a strong pension while they can.

With this significant shift in how pension organizations operate, the retirement years have become the automated part of pension delivery and the working years the time for more—and different—interactions with customers. While making pensions as efficient as possible from the point of retirement is essential, the future must also be about making an impact much earlier in customers' lives.

Addressing a growing gap

Why must pension organizations change? In today's demographic, policy, operations and economic climate, the status quo is not sustainable. While there is momentum for change and recognition of the high cost of inertia, reform tactics—such as increasing pension age or reducing the support people receive—do not adequately address these challenges.

The elephant in the room for pension organizations—and for people from working age through retirement—concerns the enormous shortfall in retirement funding in countries around the world. In fact, a European Central Bank report reveals that state-funded pension obligations across 19 EU nations total approximately €30 tn ($37 tn), which is about five times greater than their combined gross debt.

This reality ultimately translates into a wide gap between the income that people expect to live on during retirement and what they will actually get—a disparity that is increasingly top-of-mind for many. For example, based on projected retirement income, 38 to 54 percent of UK workers are under saving—with 22 percent having no savings at all. What's more, 82 percent of respondents to the Accenture Global Retirement Services Survey say that they are worried about their financial situation after retirement, and 57 percent believe that their standard of living will drop when they stop working.

Seeing the big picture

With the affordability, sustainability and adequacy of pension provisions mired in this uncertainty, public pension organizations must look at their role in a broader context. This means operating with intention as part of a three-tiered system that distributes provisions differently and for different purposes:

Tier I: Bread. National state schemes providing basic provisions.

Tier 2: Beer. Employer pension schemes supporting quality of life.

Tier 3: Champagne. Personal investments that can enhance retirement.

Because most people cannot secure their retirement by depending solely on provisions from national state schemes — and few governments could afford to support citizens at their expectation level, even if they wanted to—the need for alternate provisions is clear. Change starts with public pension organizations engaging with working age people to enhance Tier 2 provision—that being the tier that will make most difference to most people's quality of life.

Helping people help themselves

This engagement should focus on strategies and approaches that increase people's reliance on Tier 2 provision:

Outreach. Pension organizations should develop outreach initiatives that involve communication, education and even incentives to help working people understand their options, plan for the future and enroll in employer schemes. At the Norwegian Labor and Welfare Administration (NAV) and UK Department for Work and Pensions, pension forecasting tools are raising awareness among younger workers with an online forecast of workers' eventual state pension provision. Auto enrollment programs like the one currently being implemented in occupational pensions in the United Kingdom can address apathy hurdles—once enrolled, people are less likely to deselect themselves later.

Analytics. Analytics can help working age people who are in a position to help themselves and target them. Using data including tax, national insurance contribution or credit agency reference data, agencies can determine which citizens are enrolled in employee schemes and which citizens are not but should be. From there, agencies can target appropriate outreach, focusing on those who are not currently making sufficient provision for retirement but—crucially—have the means to do so. There are highly relevant experiences from the private sector to draw on. One of many financial institutions using analytics this way, a European bank is using analytics to deliver more targeted sales campaigns across their financial services products, resulting in a 30 percent sales increase.

Portable schemes. Since so many people switch employers during their careers, providing state-endorsed/funded processes, platforms or clearinghouses for workers to move employer-based pensions from one job to another—or otherwise amalgamate them—would help strengthen occupational pensions for many people. This approach—whether physical or virtual—simplifies customers' management of their pension provision, and can help reduce the impact of administrative fees on smaller amounts of retirement savings.

Risk management. Government plays an acknowledged role in regulating activity in the commercial and financial sector. Improving regulation of employer schemes can build savers' confidence and improve the credibility of the pension industry. One way to do this would be to use analytics to drive a risk-based view of employer pension schemes to support early intervention and assistance—and reduce the incidence of financial default. The financial industry practices this type of analysis regularly in terms of conducting risk assessments related to specific financial products.

A new future, a new mission

Real pension reform means unprecedented transformation for pension organizations. The very identity—the fundamental mission—of pensions work will change dramatically as agencies emphasize a caretaking role over a transactional role. Silos must be broken down and new competencies developed.

Yet lasting pension reform demands that agencies take a whole person view of customers. They must chart a new pensions journey with more and deeper interactions during the working years—a period when agencies can help people help themselves. This action must be seen as part of a much wider change. Extended working lives means that employment agencies and in-work support should be gearing up to help those beyond traditional pension age. The idea of one date late in life when work support stops and pension support begins has become outdated. Just as retirement may begin at 21, work may continue past 65.

For more information

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