Testimony of Aron Szapiro
Associate Director of Policy Research, Morningstar
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Chairman Collins, Ranking Member McCaskill, and Members of the Committee:

Thank you very much for inviting me here today to discuss how technological innovations can help improve retirement security. As part of Morningstar's mission to help ordinary investors, we offer products that provide automated guidance to help American workers make the most of their finances. We have learned much about the power of technology to improve people's retirement security from these products. In particular, I will draw on some of the lessons we have learned in developing our HelloWallet and Retirement Manager applications.

The Need for Holistic Financial Guidance to Improve Retirement Security

To best use their retirement workplace benefits, employees often must make complex financial decisions in the context of other obligations and goals. In many cases, workers do not have sufficient tools to make these choices; luckily, new technology can play a vital role in helping them make the most of their benefits.

A few decades ago, most workers did not need such financial technology. Employers (who provided retirement benefits) offered defined benefit plans, which required workers to make very few decisions, except perhaps to elect the form of their survival and spousal benefits. In the old defined benefit system, employees did not have to decide how much to contribute to their retirement plan, how to invest their contributions, or how to convert their savings into lifetime income at retirement.

Today, most workers are in defined contribution plans, and they now carry responsibility and risk for key decisions regarding contribution levels, asset allocation, and withdrawal strategies. (An estimated half of workers face even more complicated decisions because they lack access to a workplace retirement plan.)

Technology can help employees manage these responsibilities in ways that weren't possible even a few years ago. By providing different options for retirement savings and later spending during retirement, technology can help workers better understand the trade-offs they face. Technology also offers a low-cost solution to help workers make smart asset-allocation decisions.

How Technology Can Help

Financial technology offers three key strengths for conveying critical information about retirement plans and improving employees' retirement security.

- *Technology offers immediate feedback to help people plan for retirement.* As Americans grow increasingly comfortable with smartphones, tablets, and of course, computers, they are more and more accustomed to managing their finances online. The immediate feedback from financial technology is thus more useful today than ever before. For example, by using electronic retirement planning tools, as workers adjust their retirement contributions they can see instantly how these changes translate into an increase (or decrease) in likely future retirement income. They then can immediately modify their retirement deferrals to meet their goals, with the click of a button. This feedback is targeted to the individual, as it can be personalized for a person's age, goals, and income. Technology even makes it possible to run very sophisticated retirement simulations, which test the robustness of a user's plan under a variety of market conditions accounting for complex taxation rules, in only a few seconds.

- *Technology allows for rapid behavioral testing so researchers can learn which approaches encourage more saving*. Due to the low cost of providing cloud-based software applications, it is now easier than ever to run experiments to see which approaches to presenting retirement information resonate, and which ones do not. By using this technology, our behavioral researchers have repeatedly found that seemingly minor details in the decision-making environment can halve—or double—actual follow-through rates. For example, we tested several calls to action to encourage our users to review their retirement plans. We learned that a simple, "Are you saving enough for retirement?" encouraged the most people to click on a link for retirement guidance and then adjust their contribution elections.

- *Technology can aggregate a user's accounts to provide a comprehensive, holistic picture of their finances.* Looking at an employee's 401(k) balance in isolation will likely result in a false assessment of their retirement-readiness. For example, a worker with a high level of retirement savings may appear to be on track for a secure retirement—but if she lacks sufficient emergency savings, she may well end up using these retirement assets to cope with an unexpected expense. Workers with other pressing financial goals—such as sending a child to college or purchasing a home—may be very tempted to spend their retirement assets on nonretirement purposes. Indeed, this "leakage" may drain as much as one fourth of assets from retirement accounts. New technology makes it inexpensive to aggregate accounts, and new applications can compute the numbers to provide users with holistic guidance, which helps them prepare for emergencies and other expenses, preserving their retirement savings for their intended purpose—retirement.

Another complication is that retirement assets are often spread across many different accounts, such as individual retirement accounts or a previous employer's 401(k). This fragmentation means it is critical to look across all of a worker's accounts to gain the fullest picture of their retirement savings, in order to recommend the right asset-allocation strategy and appropriate contribution levels. Technology provides a low-cost way to aggregate data that helps workers with multiple accounts form a good plan for achieving success in retirement.

Conclusion

Of course, when helping workers reach their retirement goals, technology is one part of the solution. Hybrid approaches, where software helps people understand their options and stay on track, may well be augmented with human advisors for more-complex problems. However, new technology has an important role to play. I would be happy to share some of the results we have seen with our financial technology products, and I have included some highlights in my written statement.

Thank you again for the opportunity to testify here today, and I look forward to any questions.

Appendix I: Key Results from HelloWallet and Retirement Manager

Through evaluating our HelloWallet and Retirement Manager products, we have seen encouraging results. With our HelloWallet application, we have seen our users increase their retirement savings deferrals by 11 percent within three months of beginning to use the application and 12 percent within one year. These increases will help more workers prepare adequately for retirement. Under our Retirement Manager application, we have seen 87 percent of users have increased their retirement deferrals by an average of 28 percent, once Retirement Manager recommended they do so.

Exhibit I: Example of Translating Regular Contributions Into Income at Different Retirement Ages

To better explain how HelloWallet gives immediate, personalized feedback to users and translates changes in retirement contributions into changes in retirement income, please see Figures 1 and 2. As illustrated in Figure 1, HelloWallet projects an after-tax retirement income (including with Social Security) of $3,120 for a 41-year-old man with savings of $98,000 who contributes 2 percent of his salary and gets a modest employer match. As shown, this strategy falls below his goal of replacing 90 percent of his current take-home income.

Figure 1: HelloWallet Screen Shot of Projected Monthly Retirement Income with 2 Percent Contribution and Age 65 Retirement

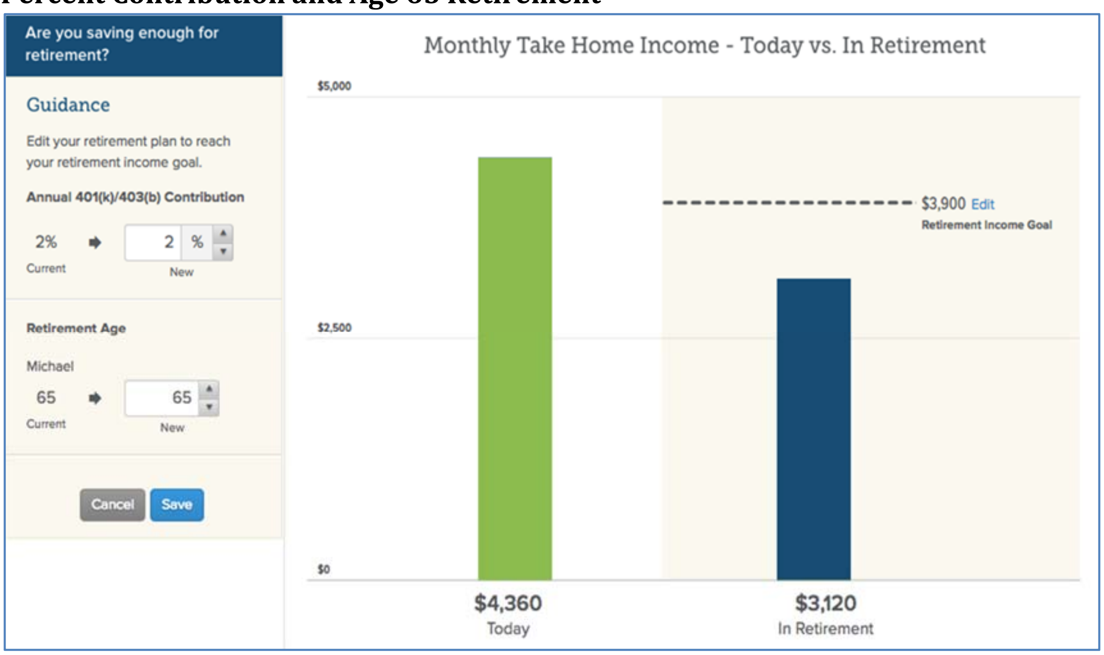

Figure 2 shows that once he increases his contribution to 6 percent (and takes better advantage of his match) and delays his retirement age to 67, he is able to fully meet his goal. This kind of immediate feedback helps workers understand the effect of their choices as they save for retirement.

Figure 2: HelloWallet Screen Shot of Projected Monthly Retirement Income with 6 Percent Contribution and Age 67 Retirement

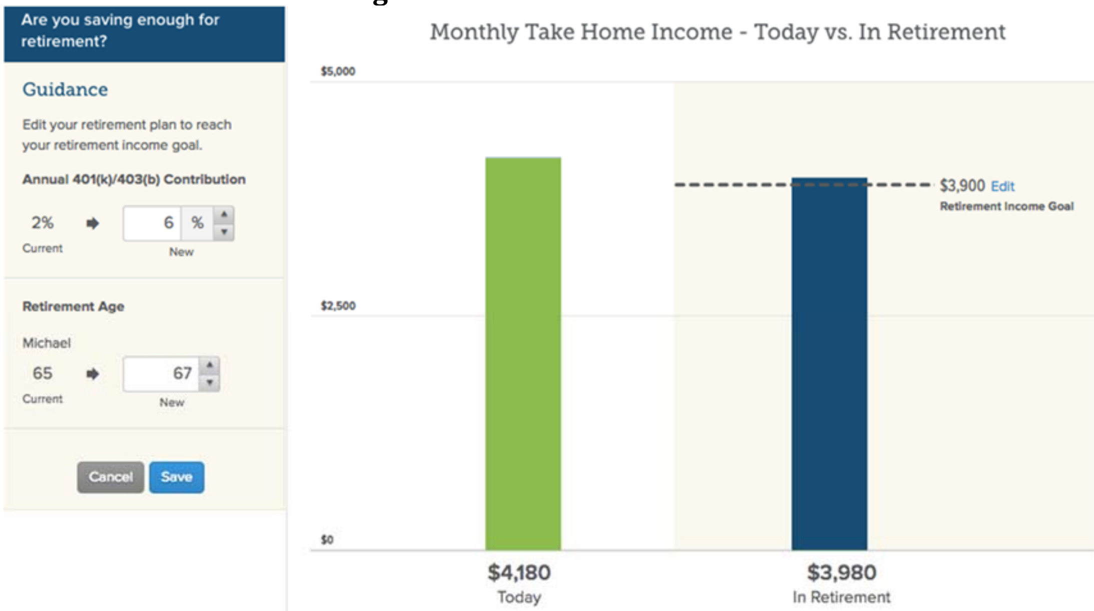

Exhibit II: The Importance of Account Aggregation and Holistic Guidance

As Figures 3 and 4 show, an employee's retirement may look well-funded in isolation, but may actually be at risk because the worker lacks sufficient emergency savings. In these cases, it is very possible that the worker's retirement money could end up being used for nonretirement purposes. Figure 3 shows HelloWallet's Retirement Score for a user who, at first glance, appears to be on track for his retirement goal based on his current retirement savings and contribution levels. However, as shown in Figure 4, he has inadequate emergency savings and risks breaching his retirement account to pay for his other spending or to cope with his inadequate emergency savings.

Figure 3: HelloWallet Screen Shot of Retirement Readiness Rating for On-Track Retiree

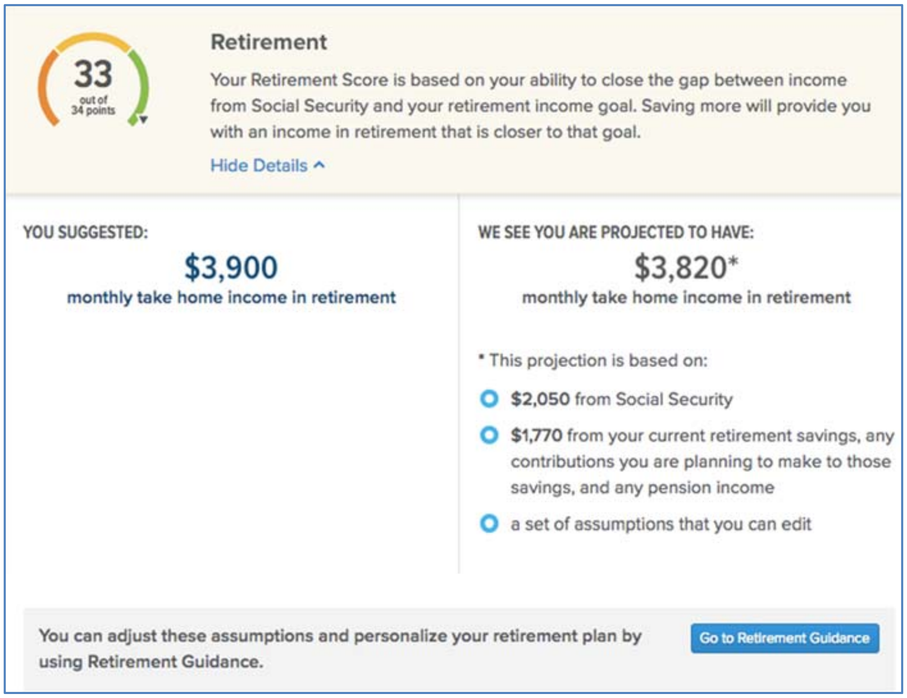

Figure 4: HelloWallet Screen Shot of Retirement Emergency Savings Rating for Same Worker