Can Embedded Wealth help plug the USD400 Trillion pension gap?

In the words of Abraham Lincoln "The most reliable way to predict the future is to create it". It's a positive sentiment and the concept that, in life, we must 'work today to ensure our tomorrow is important' if we are to maintain balance. However, when we consider pension provision, which is our way of creating our future, we are not doing enough today - we need to save more to ensure a stable future.

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The Crisis

Globally, the pension gap, i.e. the difference between income and expense during retirement, is expected to increase to USD 400tn over the next 30 years from USD 70tn currently. The pension gap is growing at 5% p.a. – we are not doing enough to overcome this challenge.

According to the World Economic Forum, globally, there are fewer people under the age of five than there are over the age of 65. The world is aging! In addition, a high proportion of those over 40 years old are at the risk of not being able to save enough for their retirement. This is putting pressure on the younger generation to support a growing pensioner population.

Over the past decade, the retirement age has had to be increased in many countries to contain the pension crisis. If this issue isn't addressed, living standards will fall in the coming decades because there will be fewer and fewer persons of working age to support more and more older people.

It is getting worse

The Organisation for Economic Cooperation and Development (OECD) has highlighted that the dependence ratio of older people (i.e. those aged 65 and over as a proportion of those aged 20-64) will rise from the current figure of 22%, to 46% in 2050 globally, but in Asia Pacific it is expected to be considerably worse as the large young generation will grow old.

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Women are worse off as the gender pension gap exists in 'virtually every retirement income system in the world'. In fact, typically, the balances of women in retirement are 30-40% less than men across the globe.[1] This is not changing fast enough and will contribute to exacerbate the situation.

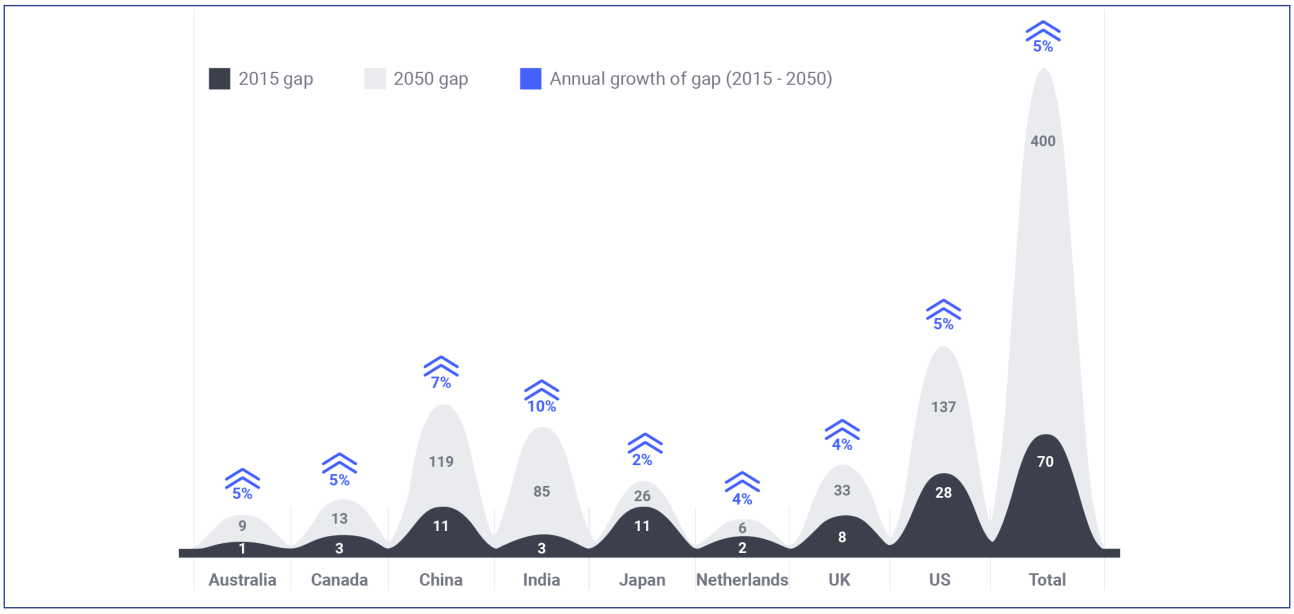

Figure 1: Global Pension Deficit by Compound Rate

Source: World Economic Forum

Working longer is not a solution

Increasing the official retirement age significantly and eliminating early retirement schemes solve some issues but create others. Longer working life will have health consequences and, in turn, will impact healthcare costs. Unemployment benefit costs will increase as well since people will still be in the workforce in their later years with decreasing chances of reemployment with age. Some of the government's savings in pension payments will be diverted to healthcare and unemployment benefits.

What can we do?

I believe the solution lies in changing our attitude towards pension and savings. Recognising that what we are doing today is not enough and we need to save more! Firstly, everyone should be looking at savings for retirement as a goal. We need to have a clearer idea on what our pension plans are capable of providing and what is the additional savings required. There are a plethora of retirement calculators available online and most wealth managers offer one.

The trick is to incorporate savings into your day to day lifestyle and to let your investments grow over a long term. Saving 2 dollars a day is easier than saving 50 dollars at the end of the month, which in turn, is easier than saving 500 dollars at the end of the year. This can be achieved by using embedded / orchestrated wealth solutions which provide you savings opportunities that automatically go to investing for your retirement goal.

This also democratises wealth and enables access (due to economies of scale) to people who could not afford wealth solutions earlier.

Roundups are an example of embedded finance, where every purchase is rounded up to the nearest dollar, or nearest ten, and the difference is put into your saving pot which is invested periodically. Another example is periodic auto sweep into the wealth account which can use funds in a bank account, wallet or even loyalty points.

additiv's Wealth-Management-as-a-Service (WMaaS) platform strives to enable people to save more and take control of their future. It allows any digital channel to offer goal-based savings opportunities that are fully compliant with the securities regulations of the country. It delivers an automated easy to use solution for people to save for retirement or other goals. It is not just a technology solution but a plug and play offering that delivers a fully compliant wealth solution through existing digital channels.

Conclusion

Recognising that the existing pension plans will not be enough to sustain your future requirement is crucial. The situation is getting worse by the day. We need to change our outlook towards retirement savings and do today to save more and invest for the long term. Embedded finance provides an easy and effective way to save for a happy and fulfilling retirement. ■

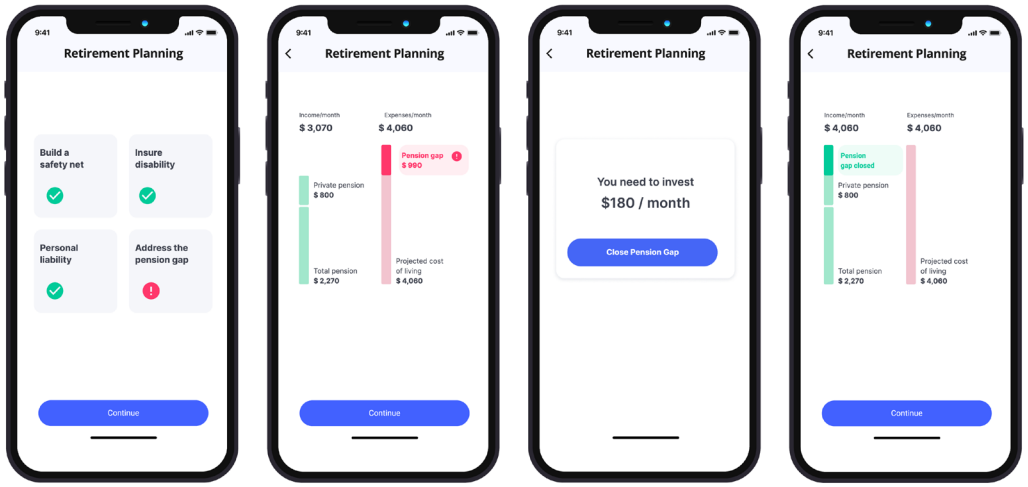

Figure 2: Retirement Planning Screen Examples

Source: additiv

[1] The scary facts behind the gender pension gap | World Economic Forum (weforum.org)