

# Technology Key To Tackling Retirement Challenge

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**N**ews stories about the Canadian retirement system have become all too familiar. Despite improvements to the Canada Pension Plan (CPP), millions of Canadians are not retirement-ready. The vast majority feel they lack a true plan for their retirement and workplace retirement plan coverage in the private sector – particularly for the nine in 10 private sector workers who work in small- and medium-sized businesses – is very low. And retirement savings levels for those without a workplace plan tend to be far lower.

Recognizing the challenges facing our industry is important, but too little attention has been paid to the role of technology in solving the retirement problem. The time has come for modern retirement technology to play a critical role in democratizing access to retirement plans and helping millions more Canadians achieve their goals.

The reality is most legacy providers have fallen behind the times. Most of today's retirement industry runs on old technology. Most capital accumulation plan recordkeeping technology was built 30 to 40 years ago as these plans were first starting to come into vogue. Even the name of that technology – recordkeeping – suggests its limitations, although the label has stuck. This generation of retirement technology was, first and foremost, a system of record.

These systems were built on what was,

in the 1970s and '80s, modern technology, using programming languages of the era (e.g., COBOL) and dedicating significant resources to physical servers and other on-premise infrastructure.

As capital accumulation plan design evolved, these systems became more complex. More investment options were added, making recordkeeping and transaction processing increasingly challenging. The government created new plan types with different rules and recordkeepers needed to build complex rules engines to manage the bespoke requests from their large sponsors.

## Opportunities Created

While the advent of the web created opportunities for online digital interfaces, providers layered them on top of their systems, which allowed members to self-serve and access planning tools and sponsors to administer aspects of their plans. Parts of the front end of systems may look modern, but they are built on the same 1970s and 1980s foundation.

So no matter how slick the user interface, they are expensive to maintain, slow, and costly to change, and require a high degree of manual operational effort.

Customers and industry participants are then left to pay the price for this old technology. High technology maintenance costs mean higher fees for plan members. Employers with fewer employees and members with smaller balances remain underserved because of poor unit economics. Product innovation lags because of the cost and time it takes to change.

Benefits advisors end up spending

time on paperwork rather than on engaging clients and growing their practices. Regulators get pushback based on changes that would help in the industry because recordkeepers cannot adapt to the change.

Providers cannot transform their operating models to make them more efficient and customer-centric because of the burden of legacy tech. And they cannot attract the best tech talent because few want to work on outdated systems, depriving the industry of Canada's growing pool of technology talent.

But it's not all bad news. Software has come a long way and these advances, coupled with the latest in retirement research and 'what works,' hold the promise to dramatically improve retirement outcomes.

## The Future Of Retirement Technology

The nature of technology infrastructure has completely changed. The rise of cloud computing means on-premise servers are no longer required. Storage and computing capacity can be purchased on an as-needed basis, minimizing overhead while providing near-infinite scalability.

And cloud infrastructure is about much more than storage and computing. Building on the cloud – what is often called 'cloud-native,' as opposed to applications that migrate to the cloud over time – provides access to hundreds of other infrastructure-as-a-service tools that cloud giants like Amazon, Microsoft, and Google have invested billions of dollars in. Accessing tools like these for security, data analytics, automated testing, and machine learning means not having to build and maintain this infrastructure yourself, so more effort

can be put into solving core customer problems like improving retirement readiness for members and making administration easy for employers.

Working with an older technology platform may also restrict an organization's ability to harness the power of modern security tools and practices. Companies with modern platforms are in a much stronger position to make use of real-time security tools that are becoming essential to satisfying the security concerns of regulators, clients, and benefits advisors.

The improvements that modern technology can bring are quantifiable and surprisingly large. A recent analysis that PwC conducted in partnership with Common Wealth found that a modern retirement technology platform could increase "digital capital efficiency" – the amount of



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value created for each dollar of technology spend – 15 to 20 times relative to a legacy system. That means that investments in a modern technology platform could potentially create 15 to 20 times as many customer-value-creating innovations for the same amount of capital.

If spread across the industry, this would represent a quantum leap in the speed of innovation. Trying to solve the retirement problem – considered by some to be the hardest problem in finance – with old technology is like fighting with one hand (or to be more precise, 1.9 hands) tied behind your back.

Modern technology can help us build connections with other critical parts of the ecosystem. Application programming

interfaces (or APIs) make it possible to completely automate employer plan administration, from employee management to payroll deduction, by having the retirement recordkeeping system sync in real time with the payroll and HRIS system. Linkages can be created with other financial institutions, turning account transfers from a process that takes weeks or months to one that takes days or even hours, and consolidating real-time information about a member's various accounts in a single place. API technology also has the potential to pull in real-time data on CPP entitlement, contribution room, taxation, and other key parts of the retirement planning process that today require a high degree of manual work.

### Power Of Data

A modern tech platform can also help leverage the power of data to improve retirement outcomes. A modern data model makes it far easier to apply the latest data tools, from predictive analytics to machine learning and surface actionable insights and evidence-based actions, for plan members, sponsors, and advisors. This makes it possible to use technology to help fill the massive retirement planning and advice gap for middle-class Canadians.

In fact, benefits advisors are welcoming modern technology as it has the potential to transform the advisor's role. By automating more and more parts of the customer journey – from plan design to onboarding to payroll processing to member engagement – technology can save advisors considerable time, which they can spend on building new client relationships or deepening existing ones.

Modern tech also makes it possible for benefits advisors to build a group retirement practice. By reducing complexity and paperwork, technology can work alongside the advisor to educate clients and illustrate the value of the offering.

For the growing cadre of group retirement advisors who work with individual plan members, modern recordkeeping platforms, if they are truly 'full-stack,' have the potential to combine digital retirement planning and advice with actionable transaction processing, enabling an efficient hybrid digital-human model where the advisor can focus on those actions where humans can add the most value, such as behavioural coaching, thoughtful person-

alization, and helping clients navigate the emotional and psychological issues involved with retirement planning.

### The Digital Transformation

While most of Canada's capital accumulation plans continue to run on legacy technology, we are optimistic about what the future holds. Key stakeholders, from advisors to sponsors to plan members, are paying more and more attention to technology-related issues, from digital experience to cybersecurity to payroll integrations. Fee compression is putting pressure on providers to digitize manual processes. Rising demand for decumulation solutions and advice-based value propositions are exposing the limitations of legacy platforms in delivering rapid innovation. Advisors are increasingly reluctant to stake the future of their businesses on 30- or 40-year-old technology.

These forces are likely to accelerate digital transformation and, therefore, innovation in the group retirement industry in the years to come. Ultimately, the promise and benefits of modern technology are in the service of better retirement outcomes at a lower cost to the member, advisor, and sponsor. And that's good news for Canadians and the industry. **BPM**



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