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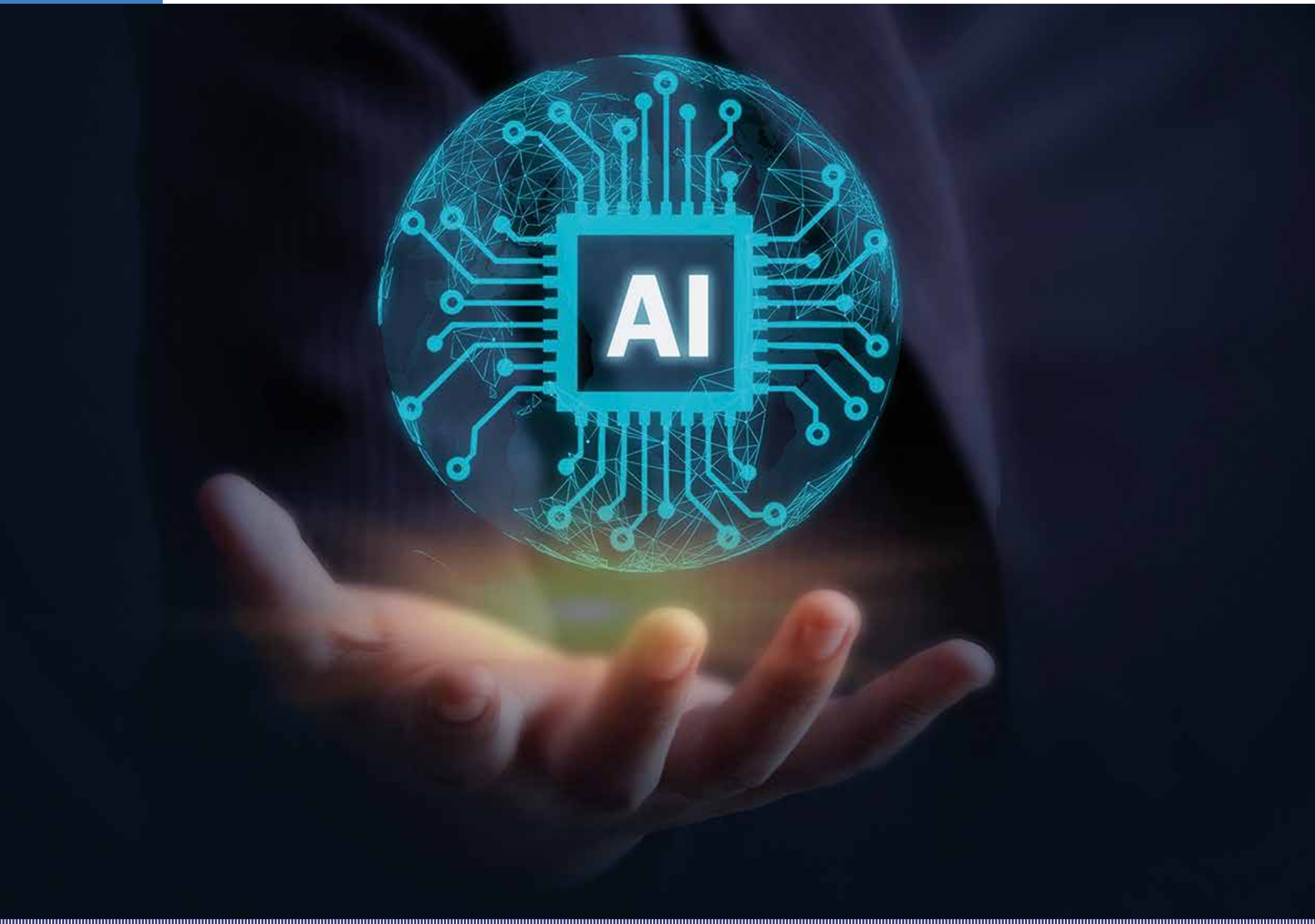
ROUNDTABLE



AI PENSION ADVICE: FROM CONCEPT TO REALITY

– INTELLIGENT CONVERSATION ABOUT PENSIONS
– REGULATING THE GHOST IN THE MACHINE

IN ASSOCIATION WITH

Mercer

ON THE CUSP OF A RETIREMENT PLANNING REVOLUTION

AI-driven pension guidance chatbots are coming, and advisory versions cannot be far behind. Guard rails will be needed, but the prize of much better retirement outcomes could be immense

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Such is the power of artificial intelligence that it is inconceivable that it won't, one way or another, transform the way financial advice and guidance are delivered. The question around AI in pensions advice is a case of when and how, not if.

Anyone who has messed around on the current version of ChatGPT for any length of time will understand its limitations. Yes, it is massively impressive in giving focused, personalised, useful information in ways that Google and other search engines can't. But because it uses so much unverified data, and has limited knowledge of anything post 2021, it can make mistakes. The trick for phase one of AI in pensions is using a closed system that only uses verified information. A provider, employer or scheme may between them generate hundreds of pages of accurate information, yet for the user, finding the answer they are looking for is like searching for the proverbial needle in a haystack. The large language model approach takes them to that needle automatically, or maybe after asking a few questions to make sure it is on the right track.

Getting people to the information they know they need is stage one. Next up is the sort of nudges currently being explored in the advice/guidance boundary review. For years providers have sought the ability to make 'people like you bought this' nudges along the lines of those currently used by retailers, without straying into advice. AI can be expected to take new guidance rules a step further, bringing bespoking of content using levels of insight currently deployed by the likes of Netflix or Amazon Prime when they predict which programme you'd like to watch next.

The big challenge comes when things get personal, or personalised. But even this can probably already be done by the tech available today. The question is, who is going to actually do it?

The round table covered in this supplement included a demonstration of Mercer and Engage Smarter's pension guidance chatbot. Reaction from the advisers in the room was positive. Yes there are challenges – the accuracy of information, data privacy, transparency and care around the boundary between advice and guidance. But the prize of massively increased engagement and understanding is so great that we should commend those taking active steps to move this technology forward.

While AI can reduce the cost of providing advice, there is a limit to how affordable these services can become – professional indemnity costs will not evaporate. And despite automation, regulatory requirements and the need for human oversight remain critical. AI innovations must be embraced with caution, but with foresight and care we could be on the cusp of a revolution in retirement planning driven by AI.

INSIDE

AI PENSION ADVICE: FROM CONCEPT TO REALITY

INTELLIGENT CONVERSATION ABOUT PENSIONS

Pension providers are now testing AI prototypes and large language models offering guidance on retirement options. Emma Simon reports on what consultants make of this work in progress

Artificial intelligence is a powerful tool with the potential to reshape many aspects of the pensions landscape, from advice and administration to the way people engage with their retirement savings. This is no longer tomorrow's technology though, providers are starting to utilise AI algorithms today.

Consultants were able to test one of these prototypes at a recent Corporate Adviser roundtable, developed by Mercer and Engage Smarter.

Mercer Workplace Savings head of proposition Stephen Coates said: "AI will inevitably have a significant impact on our industry; we want to be at the forefront of these developments."

Mercer has created what it is calling a 'conversational AI agent' functioning like a highly effective chatbot, facilitating meaningful conversations and two-way dialogue.

This tool answers members' questions by filtering relevant information and data, producing an easy-to-read answer that should be intelligible to most people. In contrast a comparable Google search generates pages of sponsored and unsponsored links. Crucially, the AI version also prompts users with follow-up questions or encouraging users to consider potentially overlooked issues.

"We want people to use this information to make better financial decisions that will ultimately lead to better outcomes in retirement," said Mercer's head of engagement Tom Higham.

Currently, responses are not personalised, but Higham stresses this is just the first phase of its development. It plans to integrate relevant scheme data later this year, followed by individual data to create a rich, data-driven experience.

Mercer is in discussion with EV, which powers its modelling tools, to connect these to the AI system. The provider also has substantial financial information through its Destination Retirement advice and guidance tool.

(Left to right) Shabna Islam, Beth Brown, Stephen Coates and Mark Futcher

Phased launch

In terms of timetable, Coates said this initial version should go live at the end of the year, giving generic but detailed pension information. The next phase will provide employer-specific information, expected the following year.

Mercer's partnership with Moneyhub could allow it to integrate broader financial information, opening up significant opportunities for this technology, but there is no proposed launch date yet. Coates said there are compliance and legal considerations, necessitating a degree of caution. "It's not necessarily because we can't do it, it's because we are trying to get these things right."

Higham highlighted that this AI prototype is a 'pension specialist', unlike general large language modelling AI tools like ChatGPT. "There are some great chatbots out there but this one is solely focused on pensions. It leverages verified

information about Mercer master trust and the broader pensions landscape."

Mercer is working with Engage Smarter, which has been developing AI tools for various industry sectors. Senior leader Matt Gosden said focus is critical. "The potential for AI is huge, but it can be used in many different ways. Saying you are going to improve your business by using AI is about as meaningful as saying you will improve it by using computers. With AI you need to narrow down what you are doing, to have a chance of delivering something that works well."

Human versus Machine

Gosden said the tool aims to deliver financial guidance more effectively than a human. There are several aspects to this: is the information accurate, and easy to understand, and will consumers interact with these services.

The success of these tools depends on trust as much as technology, although the two are interlinked: if people fear information is mis-leading or incomplete, then trust will be hard to establish.

Gosden said they have built guard rails into this prototype to improve accuracy. The AI tool is built around a curated content base, rather than pulling information from the internet.

This 'closed' system is also important for data protection and financial privacy.

Coates highlighted the limitations of open AI systems like ChatGPT. "It can grab information randomly and inaccurately off the web."

Barnett Waddingham partner and head of DC Mark Futcher asked whether this AI tool knows that it does not know things? This he said is important in ensuring accuracy and building trust.

The demo showed the AI machine admitting it did not have the relevant information in certain circumstances. It avoided straying into advice when asked more personalised questions, such as 'should I buy an annuity', instead offering general information on annuities and drawdown, with a prompt to seek financial advice.

"It's an engineered system that goes into a core content base," said Gosden. "If it doesn't know it can hallucinate an answer which sounds convincing but is wrong."

As AI systems rapidly learn, a curated content base also helps with transparency and compliance. "If the rules and regulations change we can update this information." Gosden said. "If it gives a wrong answer it is easier to go back and understand where this misinformation came from, why the mistake occurred."

These errors are an important part of the development process. "We have 'red teams' set up around Mercer, individuals asking it questions to find potential flaws, or whether it is giving information that is suboptimal or not right. They spend time each week trying to break the system then flagging up potential problems."

AI responses, even at this prototype stage, are giving highly accurate answers. "Humans make lots of mistakes when answering these sorts of factual pension questions," Gosden said. "These are already more accurate than typical human responses we have reviewed, and we are still working to improve the machine."

But there are differences in machine and human intelligence and in the mistakes they make. "AI machines get very different things wrong. It's the sort of thing that a human would say 'that's a stupid error'," he said.

For this reason many on the panel agreed there still was a need for human input alongside AI solutions, be it 'sense-checking' or signing off guidance given.

LCP partner Alex Waite noted some of his firm's clients are already using AI tools to assist pension helpdesks. "A question comes into the helpdesk and people see the AI-generated answer. In most cases they know if it is right or not, and can essentially copy and paste it if it is correct. In their hearts they probably know that this will take their job at some point, but at the moment they are still adding value."

The issue with errors causing misleading advice is something that worried those who have worked in the financial advice industry. Mattioli Woods employee benefits team director Sean McSweeney said the example of pensions mis-selling showed how redress claims could run to nine-figure sums, if problems were widespread, something that should give the industry pause for thought.

Trust issues for trustees

Trust is also an issue for trustees and employers within the workplace pensions market.

Arc Pensions Law partner Beth Brown said that trustees will want reassurance that output from these AI tools is accurate. "Trustees need to be confident these tools are based on correct information, and that personal data is used appropriately. It's not a case of trustees reading every sentence generated by an AI chatbots, but due diligence needs to take place, as trustees ultimately have a fiduciary duty of care to members."

Hymans Robertson head of DC provider relations Shabna Islam raised the risk issues with AI and said that trustees board will soon need to have a policy in place to cover this, setting out key principles for risk mitigation measures.

Tom Higham

(Left to right) Sean McSweeney and Alex Waite

Mark Futcher

(Left to right)
Matt Gosden and
James Hawkins

Stephen Coates

Shabna Islam

Brown said one key issue for trustees was ensuring the distinction between guidance and advice when using these AI tools. "As we move into more personalised guidance this distinction becomes somewhat greyer," she added.

Isio manager, DC strategy and investment James Hawkins asked whether these AI tools might be more effective if deployed by employers, rather than the pension provider. "Most scheme members don't see their pension provider as a direct contact point. Most go to the employer first."

Coates said that while there could be the opportunity for larger employers to white label these tools, he felt the onus remained on the provider. "People don't stay in their jobs for long these days, but may be with a pension provider for 15 to 20 years. Many employers have delegated an awful lot of responsibility to the master trust, and now look to product providers to give their members this sort of information and guidance."

The demonstration gave advisers the opportunity to see what AI tools offer at present, and discuss the future potential for this tech, particularly when it comes to helping members make better decisions around retirement.

It is clear there are some concerns, particularly around accuracy, and who would be responsible for potentially misleading answers.

But as Coates points out the current guidance system is not serving the majority of pension members.

"If you look at the data you see just how many people are encashing their pension on first access and taking too much too early. I am surprised more people are not up in arms at that. AI has the potential to help people think about these decisions more clearly, potentially resulting in far better retirement outcomes." ■

AI PENSION ADVICE: FROM CONCEPT TO REALITY

REGULATING THE GHOST IN THE MACHINE

AI will transform the pensions engagement landscape. Regulators needs to get ahead of the curve if its full potential for members is to be realised. Muna Abdi hears the most pressing regulatory concerns

Pensions advice 'chatbots' and guidance tools that utilise artificial intelligence to deliver more personalised support to members look set to transform the industry — but a proper regulatory framework is needed to build trust and confidence in this nascent technology.

At a recent roundtable delegates discussed the regulatory, legal, and ethical risks associated with integrating AI into pension advisory services, highlighting the need for clear guidelines to address risks such as biased algorithms and data privacy concerns.

Regulation

AI presents a significant challenge for regulators, as well as for trustees overseeing these schemes, as providers begin to utilise this technology.

Consultants at the event, who tested a 'chatbot' prototype developed by Mercer, emphasised the importance of trustees implementing robust AI policies. The called for regulatory enforcement of these such policies to build trust among members, and ensure transparency and responsible AI implementation.

Shabna Islam, head of DC provider relations at Hymans Robertson, stated: "Trustee boards should have an AI policy in place, just like we do as an organisation. What are you trying to achieve? What are the boundaries? What are the risks and measures that you have?"

She said the regulator should intervene and compel boards to establish such policies before AI technology becomes widespread. This pre-emptive measure could help identify potential risks or problems early on.

"I would like the regulator to step in and enforce this. I think this will also help build trust with members. If they can see that master trust trustee boards are empowered to issue a policy that sets out how they're going to approach AI, that will help."

Alex Waite

(Left to right) Shabna Islam and Beth Brown


Sean McSweeney

Mark Futcher, partner and head of DC and workplace wealth at Barnett Waddingham, agreed, stating that the regulator needed to "toughen up". He noted that many people would follow automated guidance routes and reach a 'good enough' position. Regulation needs to be updated and strengthened to reflect these new realities, he said.

A key aspect of this is the distinction between advice and guidance. The Financial Conduct Authority is reviewing the current boundary between the two, and discussing third options, be it 'simplified advice' or more tailored guidance options. AI has the potential to blur these distinctions further, as chatbots can deliver information and guidance tailored to an individual's exact circumstances.

Beth Brown, partner at Arc Pensions Law, discussed the distinction between advice and guidance, noting that factual information is not advice. At present, the prototype demonstrated by Mercer only provides factual information in response to questions. However, as AI tools develop and provide more tailored answers, this personalisation could create grey areas she said. Any AI tool used by a pension scheme must inform members that it is providing information or guidance, not advice, she said.

Brown argued that while AI tools may be useful, they cannot replace trustees due to their fiduciary duties. Many decisions require human discretion, not easily replaced by a machine, such as deciding what happens to a scheme member's assets if they die without nominating a beneficiary.

"But for improving member experience, I think trustees will be open to utilising AI tools. But it's about building trust in them. You need that buy-in for people to spend the time and resources using these tools. This will actually create the input which leads to getting a better output." ▶

Alex Waite, partner at LCP, highlighted particular risks with AI systems that scour the internet for answers to member questions. He warned about the dangers of an unregulated platform that functions like a search engine and said effective regulation is essential to prevent industry chaos, particularly as these tools evolve from providing information to more personalised guidance and ultimately offering advice.

There was also emphasis on developing a cyber risk policy, particularly concerning the handling of personal data.

Brown added: "We also need to develop the cyber risk policy because that's the thing we're not talking about. Once the personal data goes into this, then that's a lot of personal information. I think it is something people will be concerned about."

Post-Retirement Warnings

One of the key potential uses for AI is to help people make better decisions at retirement, particularly regarding sustainable withdrawal rates.

Delegates pointed out that many individuals currently risk depleting their future income by taking too much money too soon due to a lack of advice. However, they also noted that for some people, accessing funds early isn't a choice but a necessity due to the cost of living crisis.

Futcher said AI tools could guide users in making more responsible financial decisions. These tools should warn users about the consequences of negative behaviours that could impact their future financial stability.

There was widespread support for this among the panel, many of whom said that while this stops short of advice, it could change consumer behaviour and lead to better outcomes.

Futcher said: "I think you can flash up warnings, which no one does. Providers don't. Trustees don't know. No one flashes up warnings. All it needs to say is this is not sustainable and that's factual. You can give factual information.

"I'd rather see a change in the regulatory stance to say you're allowed to intervene where you see harm occurring."

James Hawkins, engagement manager at Isio, noted the vulnerability considerations of using AI tools. He said that financial literacy can be a vulnerability, particularly when individuals draw down funds too heavily and too quickly. He said nearly 50 per cent of people withdraw more than 8 per cent, meaning there is a serious risk they will outlive their pension fund.

He asked: "Is it not incumbent upon us to say, you need to be careful here? Because


Matt Gosden


Shabna Islam


(Left to right) Beth Brown, Stephen Coates and Mark Futcher

James Hawkins

Beth Brown

the whole point of a retirement fund is to have an income for life."

Delegates also said they wanted trustees to give as much attention to at-retirement and post-retirement planning as they currently do for accumulation; some said this should be a mandated part of a trustee's duties.

Sean McSweeney, employee benefits team director at Mattioli Woods, criticised the current system where trustees can seemingly avoid responsibility when individuals retire and are given limited choices.

"I've been saying for 25 years - mandate trustees to look at-retirement and post-retirement as much as they do accumulation. I cannot understand why trustees can walk away when somebody hits retirement age and give them a choice of two options and have no responsibility for it."

Brown agreed that not much attention is given to post-retirement advice, despite pensioners still being members of the scheme.

However, McSweeney said there could be other applications for AI to assist with this issue. He asked whether there was an opportunity to use AI to shape default retirement options. He said he'd been disappointed with the slow progress with retirement pathways, despite ongoing discussions with major providers.

He added: "It would be brilliant if an AI approach would give a big proportion of people, who it was appropriate for, advice. Is that going to happen? I hope so."

Cost

AI tools could help reduce the cost of providing advice and guidance services. However, Engage Smarter founder Matt Gosden said there is likely a floor to how low these costs could go. He also highlighted cost savings through automation in financial services but emphasised that despite lower human costs, regulatory requirements remain crucial. This could mean that even AI-enabled advice services are beyond the reach of some pension members.

Gosden said: "How far down the cost spectrum could it come and then who can afford that? I can't see it going down that long tail of people who don't have that much money. So I still think the vast majority of people are not going to be able to afford advice and therefore there is a need for this sort of guidance solution to help them in the moment, to ensure they do not make a stupid decision when it comes to their retirement income."

Meanwhile, Waite highlighted the significant challenge posed by potential redress costs in financial regulation. He cautioned about the uncertainties in the market and the potential liabilities involved in advising clients on financial decisions. Delegates expressed concerns about the potential for AI-driven engines to give misleading information — asking who would bear the cost of redress in such cases, and urging regulators to engage with this question.

Ultimately, Gosden said the reliability and accuracy of AI systems depend on having robust underlying models. Stephen Coates, head of proposition at Mercer, stated that their company's prototype was rigorously tested.

Gosden emphasised the potential for significant improvement by integrating human oversight with AI technology. This is an area that is continuing to develop, requiring regulators, scheme sponsors, trustees, providers and advisers to be cognisant of potential risks but also the opportunities it offers to transform services and products for members. ■

Mercer

welcome to brighter

If you could speak to your pension, what would you ask it?

At Mercer we're creating one of the first prototype AI pension agents that will talk to our Master Trust members at a personal level.

A business of Marsh McLennan

OPINION

SPEAKING YOUR LANGUAGE – HOW LARGE LANGUAGE MODELS WILL SOLVE THE PENSION ENGAGEMENT PROBLEM

» **Stephen Coates** head of proposition, Mercer Workplace Savings (pictured right), and **Matt Gosden** CEO, Engage Smarter

For decades we've grappled with the problem of getting people to engage with their pensions. Success has eluded the industry somewhat.

We've tried strategies from Plain English pledges, webinars, pension surgeries, interactive PDFs, videos, pension buses, projection tools, finger-wagging, carrots, sticks, even pension raps from Big Zuu. But has this made a significant difference?

For your average pension communication expert the Holy Grail has been 'engagement'. Often measured in quantitative terms – click through rates, login stats, seminar attendees and webinar registrations. If people are hearing us talk, or logging into our Apps then we must be doing things right. Right?

Engagement rates for members with pension portals have loitered around the 12 to 15 per cent mark for the best part of 15 years. What do we want? Do we want 60 per cent of our members visiting their pension savings 20 times a month? Obviously not. Pointing to 'high' engagement levels doesn't really feel like the right measure any more.

Contrived engagement is not the same as purposeful engagement. Maybe the goal isn't to talk to everyone. Maybe the goal is to be there when people want to talk to us. That's a very different definition of success.

Right place, right time

What we want is for our customers to be able to have personal conversations with us and to trust what we tell them. We want them to know where we are, and to come to us when they need help, or want to do something. This is where AI, Large Language Models (LLMs) and technology can make a real difference.

We know that a communication that feels personal and relevant is one that is likely to engage someone the most, and likely to build that most elusive commodity - trust. Until recently we've had little choice but to navigate our own way through tonnes of data and information. As is often the case in the digital era, the problem is not a lack of information, it's too much.

But LLM agents can sift, slice and select like never before. You ask it questions and, if it's a good AI agent, you'll get answers back that are on the money. This contrasts with traditional chatbots, which use pre-defined rules to provide an approximation of an answer based on a set script and some 'if-this, then-that' logic. It's the difference between your Sat Nav taking you to within a mile of your destination and taking you to the front door. Close is not close enough.

But all LLMs are not the same. The super AI LLMs, like Chat GPT, literally scrape every piece of content from the web. In some senses, their reference points, are the sum of all human knowledge. But even Chat GPT is not yet a specialist on every conceivable subject.

But there are alternative AI agents that adapt the large language model to reference a body of specialist content. These models are 'trained' to become subject matter experts in a particular domain of expertise. The better they get, the more useful they become and the more they can be trusted. The value isn't in the tech so much as the quality of content, training and guardrails.

So, what about being in the right place at the right time? Maybe we need to learn from Jeff Bezos. Let's stop trying to get people to come to us and, instead, we go to them. So where are they? One thing's for sure, they're not clamouring to log in to pension websites 20 times a month – and who can blame them? No, we're all on Facebook Messenger, Snapchat, YouTube, TikTok, TEAMS, WhatsApp, Google Assistant and a whole host of others.

Embedded finance

AI LLM models that can plug-in to these platforms and serve-up their own specialities, expertise, customer journeys and prompts will revolutionise industries like workplace pensions. They can remove much of the friction of the search for answers that we experience today. For the first time, we can be on hand with pertinent, useful support exactly when people need it and wherever they happen to be at the time. Download your workplace pension plug-in, link it to your favourite private messaging service, and you'll never need to remember your memorable phrase again for the App you registered for back in 2015. AI and LLMs can realise the dream of embedded finance and, in our case, embedded pensions.

Give it two years and your pension provider may have finally given up the incessant email spamming inviting you to login to your pension App. Instead, you'll have a plug-in that means you're only ever talking through WhatsApp, or wherever else you like to go. A question occurs to you like, 'what's my pension worth?' You get an immediate answer and then you're asked if you want to know the value of your other pensions. You say 'yes please', and it tells you. You ask what those pensions will give you when you stop work and it tells you. It then asks if you want to think about collecting them into one pot and you say 'yes please'. And it gives you an application widget there and then that takes you three minutes to complete. And if you want to be doing it at 22.45 at night when the kids are asleep, then that's OK too. Imagine that! That's what we're doing. ■

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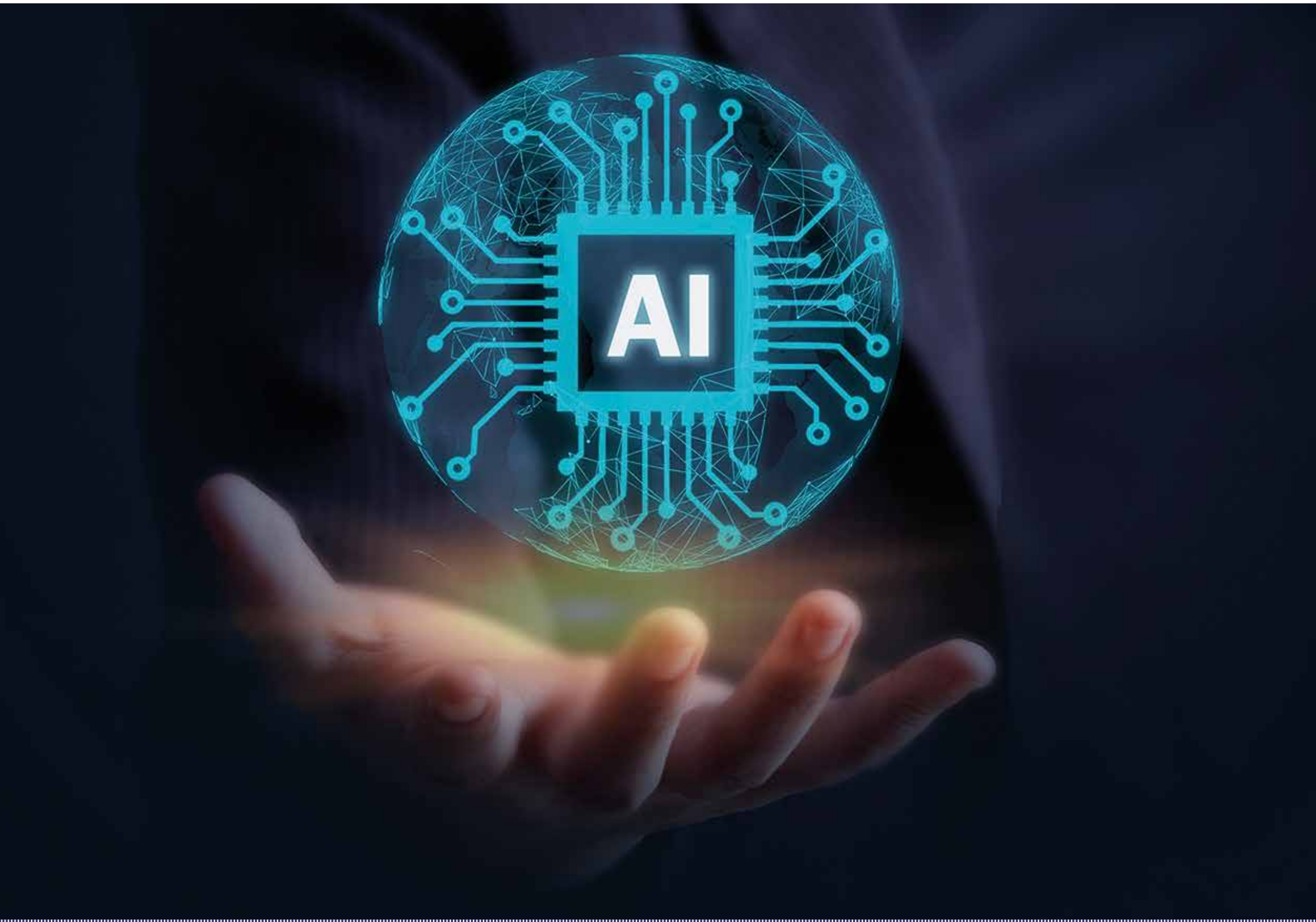

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