

The Market for Retirement Financial Advice

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Introductory Remarks

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Motivation: Need for Financial Advice (1)

The New York Times

August 8th, 2008

Here's the sad truth of the financial advice industry:
The clients most in need of unbiased help often get the least access to competent assistance.

The problem comes down to a basic pricing issue. Financial advisers seeking to avoid conflicts of interest prefer to earn money solely from fees customers pay them, and not from mutual fund or insurance commissions. The neediest customers, however, don't have a lot of money to pay for [this] help.

Money

Jan / Feb, 2010

After a tough 2009, you may be looking for some help in getting 2010 off to the right start financially. **Unfortunately, finding objective, affordable, individual advice from a live person can be a challenge.** Many "financial advisers" are simply brokers who get paid to push products. And while fee-only planners, who don't earn any commission, may have fewer conflicts, they typically prefer to work on contract with people who are already quite wealthy. Then too, **the cost can go well into the thousands per year.**

A majority of workers prefer one-on-one advice. Few prefer online calculators, seminars or call centers as main support. -- "The New Rules of Engagement for 401(k) Plans." 2010, other sources.

Motivation: Need for Financial Advice (2)

The New York Times

June, 4th, 2011

Advice from a human being is sorely lacking when we sign up for workplace retirement plans, and there is a severe shortage of moderately priced financial advisers who will help nonmillionaires and put customers' interests ahead of their own. ... **Someone will make a lot of money by coming up with a streamlined way to serve these investors ...**"

InvestmentNews

May, 22nd, 2011

While respondents [Financial Advisors] could select multiple answers to the question of what the largest obstacles were in the selection of integration technology, an **astonishing 53% of them [Advisors] selected 'unable to identify an appropriate solution.'**"



Motivation: Need for Financial Advice (3)

Strong Demographic and Regulatory Trends

- ➔ Retirement of forty-six million **Baby Boomers**
- ➔ 2007 Clarifications to **Pension Protection Act**
- ➔ Continued **shift toward defined-contribution accounts**

Underserved Audiences with High Willingness to Pay

- ➔ Forrester: **17.5 million** mass affluent (\$100K - \$1M) and mainstream (<\$100K) households are willing to pay for a financial plan.
- ➔ Willing to pay **\$450-600**. But average financial advisory client presently pays **\$2,400**.

**Continued Growth
Particularly in Less Affluent
Households**

Onliners Spurring Growth

- ➔ **Over 40% of online consumers** report being willing to pay for a financial plan. Average age is 43.5 with **average income of \$74,439**.
- ➔ Cerulli Research: **only 22% of mainstream households report not wanting a written plan.**

Strong Growth in Fee-only Advisory

- ➔ Pressure by SEC, DOL, and FPA to move toward a fiduciary standard.

Related Issues / Sessions (1)

- 1. What do we even mean by a “financial advisor”?**
 - There are BD’s, RIA’s, hybrid (dual registered).
 - Operating under state law vs. SEC, in/outside ERISA
- 2. How do protect clients from bad advice?**
 - Advisors upward bias toward taking risk
 - Investment focus versus comprehensive
 - Fiduciary versus suitability
- 3. Quality of advice**
 - How important is advice anyway?
 - Is the advice that good?

Related Issues / Sessions (2)

4. Does advice actually work?

- Is it enough to give people advice?
- Do you actually need to do more like implement / create optimal defaults?

5. Can advice in the U.S. move to a fiduciary standard?

- What are the current standards?
- Can we achieve a *unified* fiduciary definition?
- Does fiduciary restrict the compensation model?
Require transparency?
- UK and Australia vs. the US
- FINRA (SRO) vs. the SEC as regulatory model