

Financial Advisers' Advice: What Do They Tell Us?

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Pension Research Council

May 3, 2012

Philadelphia, Pennsylvania



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Financial Advisors and Plan Providers Have Extensive Reach

- 334,162 financial advisors in U.S. (2009)¹
- 38% of Americans have a financial advisor (2008)²
- 37% of all workers participate in a defined contribution plan (2010)³
- Both financial advisors and defined contribution plan providers advise and/or educate workers about Social Security and when to claim benefits
- Key questions: how well do they do and how can their effectiveness be enhanced?

¹Cerrulli Quantitative Update: Advisor Metrics 2010 (http://clients.cerulli.com/Files/pdf/2010-Cerulli_Quant_Update-Advisor_Metrics_Info-Packet.pdf)

²2008 *MoneyTrack* Survey of Consumers by Mathew Greenwald & Associates (www.greenwaldresearch.com)

³The Bureau of Labor Statistics National Compensation Survey (2010)

Methodology

- Online survey of 406 financial advisors
 - Selected at random from list provided by Financial Media Group
 - Advisors have:
 - At least three years of experience
 - At least \$50,000 of annual income
 - At least 40% of clients ages 55 and above
 - Regularly provide advice in retirement
 - Conducted March/May of 2011
- Sixteen in-depth interviews with plan providers

Knowledge of spousal benefits lower than impact of claiming age on benefit levels

How knowledgeable do you feel about the following topic related to Social Security?	Total (n=406)
How Social Security retirement benefits change based on the age one chooses to claim them	%
Very knowledgeable	44
Somewhat knowledgeable	51
Not too knowledgeable	4
Not at all knowledgeable	1
How spousal benefits work	%
Very knowledgeable	24
Somewhat knowledgeable	61
Not too knowledgeable	14
Not at all knowledgeable	1

Financial advisors typically discuss the role of Social Security in retirement

With about what percent of your clients approaching retirement do you discuss the role of Social Security in their retirement finances?	Total (n=406) %
Virtually all of these clients (90% - 100%)	41
A majority of these clients (60% - 89%)	34
About half of these clients (40% - 59%)	13
Some of these clients (10% - 39%)	11
Very few of these clients (0% - 9%)	1

The best age to claim benefits is often discussed

With what proportion of clients do you discuss the following issue related to Social Security? Total (n=402)

The best age to claim Social Security benefits %

With virtually all clients (90% - 100%) 31

60% - 89% 35

40% - 59% 20

10% - 39% 10

With very few (0% - 9%) 3

Social Security survivor benefits are often discussed

With what proportion of clients do you discuss the following issue related to Social Security?	Total (n=402)
How survivor benefits for spouses work	%
With virtually all clients (90% - 100%)	20
60% - 89%	26
40% - 59%	27
10% - 39%	19
With very few (0% - 9%)	8

Two in five advisors conceptualize delayed claiming as a “gamble”

Which one of the following do you think is the best way of describing the decision to delay claiming to clients?	Total (n=406) %
The decision to delay claiming is like saving money. You give up income today in order to receive a larger monthly income later in life.	41
The decision to delay claiming is like a gamble. If you live longer than your life expectancy, you will “win” the gamble and get more in Social Security benefits.	38
The decision to delay claiming is like buying insurance because delaying will yield a higher monthly income guaranteed for life. This provides greater protection against running out of money in old age.	21

Over half believe Break-Even Analysis is an excellent or very good approach

How would you rate the Break-Even Analysis as a way to help clients determine when they should claim their Social Security benefits?	Total (n=406) %
Excellent	14
Very good	41
Good	34
Fair	9
Poor	2

Only one in five advisors recommend delayed claiming in cases that allow it

If the following type of person came to you at age 62 seeking advice about when to claim Social Security benefits, which strategy are you most likely to suggest?	Total (n=406)
An unmarried woman in excellent health, earning \$80,000 a year, who hopes to retire as soon as possible, and has investable assets of \$700,000	%
Claim as soon as can	28
Claim when stop working	52
Delay as long as can	19
A man who is in average health, earning \$50,000 a year, with a wife earning \$40,000 a year, who plans on working until age 62, and has investable assets of \$800,000	%
Claim as soon as can	32
Claim when stop working	48
Delay as long as can	20

Delayed claiming recommended more when spouse is working

If the following type of person came to you at age 62 seeking advice about when to claim Social Security benefits, which strategy are you most likely to suggest?	Total (n=406)
A woman who is in average health, earning \$75,000 a year, with a husband earning \$60,000 a year, who plans to work until age 66, and has investable assets of \$700,000	%
Claim as soon as can	8
Claim when stop working	44
Delay as long as can	49
A man who is in excellent health, earning \$75,000 a year, with a wife earning \$60,000 a year, who plans to work until age 66, and has investable assets of \$700,000	%
Claim as soon as can	6
Claim when stop working	33
Delay as long as can	60

Primary company education on Social Security does not get high marks

To what extent do you agree or disagree with the following statement?	Total (n=406)
My primary company does a good job of providing materials to help educate clients about Social Security	%
Strongly agree (5)	6
4	20
3	36
2	26
Strongly disagree (1)	11

Financial advisors extremely interested in tools and education from the SSA

How interested would you be in receiving the following from the Social Security Administration? <i>(Percent Extremely interested)</i>	Total (n=406) %
Calculators or worksheets to help determine the best age for clients to claim their benefits	71
Calculators or worksheets to use with clients to calculate their benefit amount at different ages	70
General information for clients about how Social Security works	65
Tips of how to address Social Security issues with clients	59
Training for advisors on how to talk to clients about their Social Security benefits	59

Summary of Plan Provider Recommendations

- SSA should work with plan providers to help them educate participants about Social Security
- To assist retirement planning support efforts, consider methods for allowing plan providers to incorporate, with permission of participants, SSA estimates of Social Security retirement benefits of participant and spouse
- SSA should consider developing a program to “certify” plan provider representatives in program
- SSA should send representatives to meetings with plan participants

Conclusions

- Financial advisors tend to suggest earlier claiming than most economists consider optimal
- Framing claiming decisions in terms of “break-even ages” and gambles inadvertently encourage sub-optimal claiming ages
- Advisor self-reports of knowledge on spousal benefits suggest need for more education
- Advisors would welcome SSA providing more tools and educational support targeted at advisors
- Helping plan providers provide more effective education on SSA benefits and claiming is an important goal and the ideas they generated should be considered