



A scenic photograph of a sunset over a body of water. The sun is a bright, glowing orb in the upper center, partially obscured by soft, golden clouds. Its light reflects as a shimmering path on the water's surface. In the background, dark, silhouetted mountains rise against the sky. The foreground shows the gentle, rippling waves of the water, with a slight wake visible on the left side.

Promise & Challenges of Robo-Advise on Decumulation

*New Roles & Responsibilities for Regulators
and for Plan Sponsors & Fiduciaries*

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My Perspective

- **Papers focus on robo-advice to address decumulation in individual retail market**
- **My experience is with employer plans**
 - *mainly very large DB and DC plans, including*
 - *implementing robo-advice on DC plans*
- **Contrast could offer helpful perspective**

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Overview of Comments

- **Historical employer plan perspective**
- **The promise of robo-advice**
- **Its challenges**
- **Some thoughts on solutions**



Employer Plan Perspective

- **In many ways, robo-advice is not as new as the hype suggests**

Employer Plan Perspective

- **Modern portfolio theorists built strategic asset allocation models in 1980s**
 - *to allocate DB plan investments across asset classes using a digital economic model, and*
 - *to schedule asset tranches to mature to meet plan's cash needs to pay retiree benefits*
 - *accumulation & decumulation, at plan level*

Employer Plan Perspective

- **Bill Sharpe ported his strategic asset allocation model to Internet in mid-1990s**
 - *grew dramatically in 401(k) plans to help individual participants manage accounts*
 - *limited to asset allocation in accumulation*
 - *now includes decumulation tools as well*
 - *multiple providers today + target date funds*

Employer Plan Perspective

- **Shifting management from plan level in DB plan to individual level in 401(k) plan poses much tougher decumulation problem to solve**
 - *longevity risk: can't ask the actuary any more*
 - *investment risk: hard to manage efficiently without knowable time horizons*
 - *decision-making risk: multiples worse*

The Promise of Robo-Advice

- **Papers view robo-advice as potential solution to these issues in retail space**
 - *both agree robo-advice seems to be working well during accumulation phase*
 - *both acknowledge more is needed to address individual needs in decumulation phase*

A scenic photograph of a sunset over a body of water. The sun is a bright, glowing orb in the upper center, partially obscured by soft, golden clouds. The sun's light creates a shimmering path of reflection on the water's surface, which extends from the foreground towards the horizon. In the background, dark, silhouetted mountains rise against the sky. The overall color palette is dominated by warm oranges, yellows, and blues.

The Promise of Robo-Advice

- **Papers view robo-advice as most helpful with behavioral & decision-making risks**
— *by framing and informing critical decisions that individuals typically misperceive or get wrong*

A scenic photograph of a sunset over a large body of water. The sun is a bright, glowing orb in the upper center, partially obscured by soft, golden clouds. Its light reflects across the water's surface, creating a shimmering path. In the distance, dark, silhouetted mountains rise against the sky. The foreground shows the gentle ripples of the water, with a slight wake visible in the lower left corner.

The Promise of Robo-Advice

- **Particularly like Baker & Delleart's broad vision of decumulation robo-advice**
— includes investment glide paths, annuitization advice, Social Security-Medicare optimization, withdrawal advice, and tax optimization

A scenic sunset over a body of water with mountains in the background. The sun is low on the horizon, casting a golden glow across the sky and reflecting on the water. The mountains are silhouetted against the bright sky.

The Promise of Robo-Advice

- **Not hard to imagine more additions**
 - *long-term care advice, debt management, optimizing use of housing and other non-investment assets, health maintenance, utilization of medical and genetic information*
 - *plus integrating all this data and advice to maximum extent possible*

Challenges to Robo-Advice

- **Papers acknowledge break-through still is needed in decumulation area**
 - *something comparable to modern portfolio theory break-through on accumulation side*
 - *recognize critical role of academics and other thinkers in meeting this challenge*

Challenges to Robo-Advice

- **Papers acknowledge more work is needed on compensation-business models**
 - *to align interests of robo-advice providers and consumers of their services*
 - *in the retail space, the authors are skeptical government regulation can overcome absence of sound business models in marketplace*

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Challenges to Robo-Advice

- **Key issue is how to uncover what lurks in provider's algorithms and systems**

Challenges to Robo-Advice

- **The possibilities include:**
 - *undisclosed preferences in methodology (highlighted by Polansky, Chandler & Mottola)*
 - *undisclosed financially conflicted assumptions (highlighted by Baker & Dellaert)*
 - *security vulnerabilities (discussed yesterday)*
 - *programming and system errors*

Challenges to Robo-Advice

- **These are not just theoretical possibilities**
- **In the real world, they actually happen**
 - *one example from my experience helping implement robo-advice on employer-sponsored DC plans*
 - *there are many others*

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Fundamental Conundrum

- *Individuals with no technical expertise and all their behavioral flaws are hardly in a position to evaluate which robo-advice provider to select in the individual retail market*
 - *informational asymmetry*

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Some Thoughts on Solutions

- **As suggested by Eldar Shafir last night, individuals need a way to become informed consumers of robo-advice**
- **To do this, they need access to a trusted independent expert intermediary who will do digging and analysis for them**

Who Will That Be?

- **Online individual reviews?**
- **A financial Consumer Reports?**
- **Regulatorily mandated certifications?**
—see DOL reg 29 CFR § 2550.408g-1(b)(4)
- **Fiduciary liability regime?**
—with agency enforcement or private lawsuits?

