The Market for Retirement
Financial Advice
The Market for Retirement Financial Advice

EDITED BY

Olivia S. Mitchell
and Kent Smetters
Pension Research Council, The Wharton School, University of Pennsylvania 2013

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Preface

The long-term shift away from traditional defined benefit pensions toward defined contribution personal accounts requires that people saving for retirement must become more sophisticated than ever before. Yet the landscape for financial advice is changing, with new rules and regulations transforming the financial advice profession. This volume offers new insights into the marketplace for retirement financial advice, seeking to illuminate market and regulatory challenges so as to enhance consumer, plan sponsor, and regulator outcomes. We inform this discussion by exploring what financial advisors do, how they are compensated, how one might measure performance and impact, and how clients can be protected from bad advice and steered toward good advice.

The volume, an invaluable addition to the Pension Research Council/Oxford University Press series, should interest a wide range of readers including consumers, researchers, and employers seeking to design better retirement plan offerings, and policymakers charged with oversight and enhancement of the financial system.

In the process of preparing this book, many people and institutions played essential roles. My co-editor and Wharton School colleague, Kent Smetters, contributed ideas and suggestions. We thank him, along with our Advisory Board, Senior Partners, and Institutional Members of the Pension Research Council for intellectual and financial sustenance. Additional support was received from the Pension Research Council, the Boettner Center for Pensions and Retirement Research, and the Ralph H. Blanchard Memorial Endowment at the Wharton School of the University of Pennsylvania. We also offer our appreciation to Oxford University Press which hosts the Pension Research Council series of books on retirement security. This manuscript was expertly prepared and carefully edited by Andrew Gallagher and Donna St. Louis.

Our work at the Pension Research Council and the Boettner Center for Pensions and Retirement Security of the Wharton School of the University of Pennsylvania has focused on aspects of pensions and retirement well-being for over half a century. This volume contributes to the fulfillment of our mission, which is to generate research and debate on policy issues affecting pensions and retirement security.

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List of Abbreviations

AICPA  American Institute of Certified Public Accountants
AIME  Average Indexed Monthly Earnings
ALP  American Life Panel
AUM  Assets Under Management
BLP  best linear predictors
BLS  Bureau of Labor Statistics
BMELV  German Ministry of Consumer Affairs
CE  Continuing Education
CFA  Chartered Financial Analyst
CFP  Certified Financial Planner
CFS  Certified Fund Specialist
ChFC  Chartered Financial Consultant
CIC  Chartered Investment Counselor
CIMA  Certified Investment Management Analyst
CLU  Chartered Life Underwriter
CPA  Certified Public Accountant
CRRA  coefficient of relative risk aversion
DB  defined benefit
DC  defined contribution
DOL  Department of Labor
EBRI  Employee Benefit Research Institute
EBSA  Employee Benefits Security Administration
EC  European Commission
ERISA  Employee Retirement Income Security Act
ESOP  Employee Stock Ownership Plan
FINRA  Financial Industry Regulation Authority
FPA  Financial Planning Association
FSA  Financial Services Authority
FSA  Fellow of the Society of Actuaries
### List of Abbreviations

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<th>Abbreviation</th>
<th>Full Form</th>
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<td>FSB</td>
<td>Financial Stability Board</td>
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<tr>
<td>FTC</td>
<td>Federal Trade Commission</td>
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<td>GAO</td>
<td>Government Accountability Office</td>
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<td>HRS</td>
<td>Health and Retirement Survey</td>
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<tr>
<td>IAA</td>
<td>Investment Adviser Association</td>
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<tr>
<td>ICI</td>
<td>Investment Company Institute</td>
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<td>IFIC</td>
<td>Investment Funds Institute of Canada</td>
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<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
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<td>IRA</td>
<td>Individual Retirement Account</td>
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<tr>
<td>IRS</td>
<td>Internal Revenue Service</td>
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<tr>
<td>LP</td>
<td>linear probability</td>
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<tr>
<td>MiFID II</td>
<td>markets in financial instruments directive II</td>
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<tr>
<td>NAIFA</td>
<td>National Association of Insurance and Financial Advisors</td>
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<td>NASD</td>
<td>National Association of Securities Dealers</td>
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<tr>
<td>NIA</td>
<td>National Institute on Aging</td>
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<td>NLSY</td>
<td>National Longitudinal Survey of Youth</td>
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<tr>
<td>NYSE</td>
<td>New York Stock Exchange</td>
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<tr>
<td>OLS</td>
<td>ordinary least squares</td>
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<tr>
<td>OMO</td>
<td>open market option</td>
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<tr>
<td>PACFL</td>
<td>President’s Advisory Council on Financial Literacy</td>
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<tr>
<td>PFS</td>
<td>Personal Financial Specialist</td>
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<tr>
<td>PPA</td>
<td>Pension Protection Act</td>
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<td>QDIAs</td>
<td>qualified default investment alternatives</td>
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<tr>
<td>RFE</td>
<td>randomized field experiment</td>
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<tr>
<td>RIA</td>
<td>Registered Investment Adviser</td>
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<td>RMD</td>
<td>required minimum distribution</td>
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<tr>
<td>SANCO</td>
<td>European Commission Directorate—General Health and Consumers</td>
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<tr>
<td>SCF</td>
<td>Survey of Consumer Finances</td>
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<tr>
<td>SEC</td>
<td>US Securities and Exchange Commission</td>
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<tr>
<td>SRO</td>
<td>self-regulatory organization</td>
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<tr>
<td>SSA</td>
<td>Social Security Administration</td>
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<tr>
<td>TPAS</td>
<td>Pensions Advisory Service</td>
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<td>US</td>
<td>United States</td>
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