

How Should Retirement Investment Advice Be Regulated?

Examining the Evidence on Conflicts of Interest

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October 16, 2015

*The views in this presentation are my own and do not represent those of anyone else.

Research Questions Under Consideration

- Do advisors tilt recommendations when they receive higher payments for recommending certain products over others?
- Do the recommended products underperform?
- Do brokers' incentives cause biased advice and underperformance for retirement savers?

Conflicted Advice Observed in Real-World Situations

- “Mystery shopper” studies show bias
 - Mullainathan et al. (2012) – Auditors sent to financial firms in Boston & NYC with different portfolios were steered away from well-diversified investment strategies & toward funds in economic interest of advisor
 - Turner (2014) – Approach advisors with a TSP account; all encourage rollover to higher-fee IRA
- Other studies document bias & underperformance
 - Christoffersen et al. (2013) – brokers’ incentives tilt recommendations that then underperform
 - Chalmers & Reuter (2015) - broker-advised accounts heavily tilted toward investment options paying the highest annual commissions; such accounts underperform target-date funds
 - Del Guercio et al. (2012) – flows in broker-sold, actively-managed segment respond to raw returns & commissions, not risk-adjusted returns; underperformance

Goals for Research & Methods

- Isolate the role of conflicted payments
 - “All else equal”
- Apply pre-specified research methods with identification strategy
 - No data-mining, no cherry-picking of favorable results
- Replicability of results
 - Across data sets (using same research methods), sharing data & code
- Transparency about precision of estimates
 - Present standard errors to rule out very small or very large effects
- “Sign the bias” & don’t just criticize, use innuendo, or assert
- Consider & balance all the evidence that meet these criteria
 - Discount shortfalls in evidence with appropriate weight

What Now?

- Promote high-quality research & analysis to elevate policy discussion
 - Encourage all researchers to facilitate replication
 - Encourage greater data availability, especially account level data & data on advisors' incentives
 - When disagreements arise with peer-reviewed studies, contact journals, push to publish dissent, and advance scholarship
- Scholarship suggests:
 - People respond to incentives
 - Across a wide range of applications, incentives matter
 - Across a wide range of international institutions and financial market structures, incentives matter