How Should Retirement Investment Advice Be Regulated?

Examining the Evidence on Conflicts of Interest

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*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