

# **New Evidence on the Demand for Advice within Retirement Plans\***

**Jonathan Reuter**

Boston College & NBER

**David Richardson**

TIAA Institute

**Cherry Blossom Financial Education Institute**

**George Washington School of Business**

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# Motivation

- Although individuals are largely responsible for retirement savings decisions, financial literacy rates remain low
- Two options for potentially improving savings decisions
  - **Engagement**
  - **Defaults**
- Defaults are powerful tools, but it is possible that reliance on defaults today will crowd out engagement tomorrow
- Moreover, in a world with heterogeneous households there are large potential benefits from engagement and customization relative to one-size-fits-all defaults

# Research Questions

**Today, we focus on participant engagement**

1. Which participants are most likely to seek advice within their DC retirement plan?
2. When are participants most likely to seek advice?
3. How does demand for advice vary with the size of the investment menu, or the performance of the default investment option?

**In later work, we hope to quantify the value of advice**

# Administrative Data

- We analyze anonymous individual-level data on demand for financial advice between **2009** and **2014**
- Data come from **90** DC retirement plans offered by **23 (large)** institutions where **TIAA** is **sole record keeper**
- Sample includes contributors and former contributors  
**2009:**    **73,890** contributors    **60,383** non-contributors  
**2014:**    **83,649** contributors    **75,873** non-contributors
- **Defaults:** Fraction of contributors (and non-contributors) invested solely in **TDFs** increases sharply from 2009 to 2014, driven by “demand” for TDFs by new contributors

# Summary Statistics in 2014

- **159,522** participants
- Average age of **50.3 years** (std. dev. of **13.4** years)
- **45.7%** male and **51.9%** married
- **13.4%** joined the plan in 2014
- Contributors:
  - Annual contribution of **\$11,512** (median **\$7,744**)
  - Account balance of **\$151,914** (median **\$58,473**)
  - **41.9%** invest solely in **TDFs** (jumps to **77.7%** when we focus only on new participants)
- Non-Contributors: Balance of **\$91,051** (median **\$22,760**)

# Three Types of Advice

## Asset Allocation

- Uses “human capital” model developed by Ibbotson to recommend appropriate asset allocation
- *Recommendation for me:* Increase savings; decrease allocation to equity; purchase additional life insurance

## Income Planner (rolled out in late 2011)

- Uses current account balance and target retirement date to estimate inflation-adjusted life annuity income

## Wealth Management

- Requires account balance of ~\$500,000
- Uses “risk tolerance model” to determine allocation
- Estimate separate regressions for those eligible for wealth management

# Variation in Access to Advice

## **Web Tools** (introduced in late 2011)

- Only available to those participants with web access
- Fraction of participants with web access increases from **66.3%** in 2012 to **73.6%** in 2014

## **Financial Guidance versus Financial Advice**

- Advice is specific (e.g., invest in 20% in TIAA-CREF's Mid-Cap Growth Fund) while Guidance is general (e.g., invest 20% in a mid-cap growth fund)
- Fraction of participants limited to guidance in at least one account is ~20% between 2012 and 2014

## **Wealth Management**

- Between 2012-2014, approximately 7.4% of participants are eligible for wealth management services

# Time-Series Variation in Demand for Advice

## Overall

- Fraction seeking any form of advice jumps from **2.42%** during 2009-2011 to **10.25%** during 2012-2014

## Outside of Wealth Management

- Fraction seeking asset allocation advice increases from **1.49%** to **5.95%**
- Fraction seeking retirement income advice increases from **0%** to **5.14%**
- While online tools account for more than half of the overall increase, we also observe higher demand for in-person advice, which could reflect:
  - Increased outreach by institutions and/or TIAA advisors
  - Increased demand for in-person demand following use of online tools
  - Increased underlying demand for financial advice during 2012-2014

## Inside Wealth Management

- Fraction seeking asset allocation advice increases from **0.95%** to **1.38%**



# Trends in Demand for Advice (T4)

- Fraction with positive demand grown from **2.5%** to **10%**

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	<b>Asset Allocation</b>	<b>Income Planner</b>	<b>Wealth Mgmt.</b>	<b>Any Advice</b>
<b>2009</b>	1.43%		0.99%	2.42%
<b>2010</b>	1.30%		0.86%	2.16%
<b>2011</b>	1.72%		0.99%	2.69%
<b>2012</b>	6.58%	4.42%	1.06%	9.99%
<b>2013</b>	6.43%	5.97%	1.30%	11.07%
<b>2014</b>	4.89%	5.01%	1.75%	9.71%
<b>2009-2011</b>	1.49%		0.95%	2.42%
<b>2012-2014</b>	5.95%	5.14%	1.38%	10.25%

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# In Person versus Online (T9)

- Online tools introduced in late 2011
- Online advice is now at least as popular as In Person

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	Asset Allocation		Income Planner	
	In Person	Online	In Person	Online
<b>2009</b>	1.43%			
<b>2010</b>	1.30%			
<b>2011</b>	1.65%	0.11%	0.12%	0.20%
<b>2012</b>	4.28%	3.62%	2.84%	3.20%
<b>2013</b>	3.11%	5.33%	4.40%	4.35%
<b>2014</b>	2.55%	3.37%	3.09%	3.56%

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# Heterogeneous Demand for Advice

## Demand for advice is increasing with:

- Participant age
  - Within age range, demand is higher for contributors than non-contributors
  - Within age range, demand is lower for those invested only in TDF →  
**Open question when cohort of young participants defaulted into TDFs from the start will choose to engage with retirement plan**
- Account balance
- Level of retirement contribution
  - Within contribution range, demand is lower for “TDF only” sample

**The longer participants wait to seek advice on asset allocation and retirement income levels, the less time they have to benefit from advice on investment options and savings rates**

## Contributor Demand, by Age Cohort (T5)

- Steep age gradient, especially for Income Planner
- Wealth Mgmt. gradient partially reflects growing assets

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	<b>Asset Allocation</b>	<b>Income Planner</b>	<b>Wealth Mgmt.</b>	<b>Any Advice</b>
<b>20-29</b>	6.62%	3.80%	0.00%	8.07%
<b>30-39</b>	7.51%	4.01%	0.07%	9.40%
<b>40-49</b>	8.83%	4.72%	0.39%	11.51%
<b>50-59</b>	9.84%	7.17%	1.40%	14.87%
<b>60+</b>	10.21%	13.21%	4.60%	22.44%
<b>Total</b>	8.83%	6.54%	1.25%	13.44%

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## Age Cohorts: Full versus TDF only (T6)

- Advice seeking also increases with age for TDF only

	<b>Asset Allocation</b>	<b>Income Planner</b>	<b>Wealth Mgmt.</b>	<b>Any Advice</b>
<b>Full Sample</b>				
<b>20-29</b>	5.55%	3.16%	0.00%	6.79%
<b>30-39</b>	5.33%	2.74%	0.05%	6.70%
<b>40-49</b>	5.82%	3.21%	0.27%	7.82%
<b>50-59</b>	6.66%	5.38%	1.07%	10.74%
<b>60+</b>	5.91%	9.16%	4.14%	15.75%
<b>TDF Only</b>				
<b>20-29</b>	2.88%	1.19%	0.00%	3.56%
<b>30-39</b>	2.86%	1.03%	0.02%	3.48%
<b>40-49</b>	3.18%	1.46%	0.08%	4.13%
<b>50-59</b>	3.64%	2.50%	0.34%	5.53%
<b>60+</b>	3.29%	4.03%	0.68%	6.82%

## Demand, by Account Balance (T7)

- Steep age account balance gradient, too

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	<b>Asset Allocation</b>	<b>Income Planner</b>	<b>Wealth Mgmt.</b>	<b>Any Advice</b>
<b>Contributors</b>				
<b>Deciles 1-5</b>	5.68%	3.57%	0.15%	7.62%
<b>Deciles 6-9</b>	11.42%	7.89%	0.76%	16.46%
<b>Decile 10</b>	14.63%	15.40%	8.86%	30.22%
<b>Non-Contributors</b>				
<b>Deciles 1-5</b>	1.61%	1.58%	0.58%	3.31%
<b>Deciles 6-9</b>	3.32%	4.52%	1.41%	7.97%
<b>Decile 10</b>	6.21%	9.99%	6.65%	18.82%

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# Demand, by Contribution Level (T8)

- TDF only have lower demand within contribution range

	Asset Allocation	Income Planner	Wealth Mgmt.	Any Advice
<b>Contributors</b>				
Deciles 1-5	4.78%	3.32%	0.22%	7.04%
Deciles 6-9	12.13%	8.93%	1.14%	17.81%
Decile 10	15.84%	13.08%	6.90%	27.94%
<b>New Contributors</b>				
Deciles 1-5	4.87%	3.09%	0.17%	6.63%
Deciles 6-9	15.75%	9.34%	1.84%	21.06%
Decile 10	16.96%	9.36%	6.43%	27.68%
<b>TDF Only</b>				
Deciles 1-5	2.63%	1.18%	0.06%	3.43%
Deciles 6-9	6.06%	3.38%	0.19%	8.26%
Decile 10	9.71%	6.06%	1.42%	13.98%

# Advice Seeking is Persistent (T10)

- There are persistent differences in demand for advice

	Asset Allocation	Income Planner	Wealth Mgmt.
<b>Advice Year t = 1</b>	5.41%	4.88%	
<b>Advice Year t = 1   Advice Year t-1 = 1</b>	29.75%	37.54%	
Eligible for RT Tool Year t?	No	No	
<b>Advice Year t = 1</b>	4.33%	2.59%	
<b>Advice Year t = 1   Advice Year t-1 = 1</b>	22.93%	30.36%	
Eligible for RT Tool Year t?	No	No	
New Participant Year t-1?	Yes	Yes	
<b>Advice Year t = 1</b>	7.78%	13.28%	17.66%
<b>Advice Year t = 1   Advice Year t-1 = 1</b>	24.57%	43.04%	32.40%
Eligible for RT Tool Year t?	Yes	Yes	Yes



# Empirical Specification

- Basic empirical approach is to estimate demand for advice by **participant  $i$**  in **calendar year  $t$**  using linear probability models
  - Baseline regressions include demographic controls
  - Regressions that include portfolio returns and volatility of portfolio returns allow the sensitivity to portfolio returns to differ across “Defaulters” and “Non-Defaulters”
- All regressions include calendar year fixed effects (i.e., we only exploit cross-sectional variation in portfolio returns)
- All regressions include fixed effects for age groups (20-30, ..., 60+), contribution decile groups (1-5, 6-9, 10), and account balance groups (1-5, 6-9, 10)

# Variation in Level of Engagement

- **Demand for advice is lower among participants who**
  - Invest in a single plan (primary or supplemental): **4.0 – 6.5 p.p.**
  - Are limited to guidance in at least one plan: **0.8 – 1.4 p.p.**
  - Invest only in TDFs: **4.5 – 4.6 p.p.**
- **Demand for advice is higher among participants who**
  - Are new contributors this calendar year: **0.7 – 0.8 p.p.**
  - Have web access: **5.6 – 7.4 p.p.**
- No consistent patterns related to portfolio returns
- Demand for all forms of advice increases in the number of investment options on institutions' primary plan → **Possible benefit to large investment menus?**

# Robustness and Additional Tests

- **T12: Findings are robust to inclusion of 23 institution fixed effects (causing us to focus on within-institution variation in plan and investor characteristics)**
  - **Exception:** Evidence that large investment menus are associated with higher levels of advice seeking weakens considerably
- **T13: Web access appears to have a positive causal effect on demand for advice by new participants**
  - Instrument web access of new participants at institution  $j$  in year  $t$  with web access of new participants at institution  $j$  in year  $t-1$
- **T14: Advice seeking by TDF only participants is insensitive to portfolio returns**
  - Specification exploits dispersion in returns across four providers.

# Summary

- Demand for advice on asset allocation and retirement income levels both increase with age, contribution level, and account balance → **not surprising since cost of financial mistake in DC plans increases with account balance**
- However, the longer that participants wait to seek advice, the less useful asset allocation and saving rate advice will be
- Demand for both types of advice is much lower for those who participant only in the primary plan and for those who invest only in TDFs → **when will these participants engage?**
- **While defaults limit scope of mistakes with respect to asset allocation why may allow participants to remain unengaged**

# Extensions

1. How does demand for advice in quarter  $t$  respond to portfolio returns in quarter  $t-1$ ?
2. We can ask whether large menu changes are associated with spikes in advice seeking
3. If we expand the sample of plans, we can ask whether individuals defaulted into TDFs seek more or less advice than individuals defaulted into other funds (e.g., MMFs)
4. How often is advice in quarter  $t-1$  associated with changes to contributions and balances in quarter  $t$ ?  
With changes in savings rates?