

**7-Minute Discussion of
“Do 401k Plan Advisors
Take Their Own Advice?”**

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2013 AEA Annual Meetings
*Saving for the Common Man: Target-date funds, defaults
and the design of 401(k) plans*

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Big Picture

- **How do investment menus and investment choices vary across firms and employees?**
 - Hedge labor income risk?
 - Random matching?
 - Biased toward lower quality investments?
- **This paper compares the menus of advisors and their clients**
 - Test is clever (*reminds me of an old paper that compares IPO underpricing of investment banks and their clients*).
 - Finding that advisor plans resemble client plans is reassuring.
 - When there are differences, additional client funds are of questionable quality... but we don't know whether these differences are driven by advisors (supply) or clients (demand).
 - To shed more light on the role of indirect compensation, which is definitely worth doing, you need a larger sample of plans.

The Good News

- There are a lot more plans that you can study.
- Below are the number of clients per advisor based on data that I received from Brightscope (to study demand for TDFs):

	# Plans Brightscope	# Client Plans Brightscope	# Client Plans Dvorak
AON HEWITT ENNISKNUPP	1	114	5
BUCK CONSULTANTS, INC.	1	21	3
COMMONWEALTH FINANCIAL NETWORK	1	41	3
FINDLEY DAVIES, INC.	1	4	3
FULTON FINANCIAL CORPORATION	1	4	18
LOCKTON INVESTMENT ADVISORS	1	74	6
LPL FINANCIAL CORP.	1	248	8
MERCER	1	78	4
MILLIMAN	1	109	37
ROBERT W. BAIRD & CO.	1	26	5
SENTINEL BENEFITS	0	8	11
STIFEL, NICOLAUS & COMPANY	1	16	8
THE SEGAL COMPANY	1	61	8
TOWERS WATSON	2	60	3
TOTAL	14	864	122

The Bad News

- These advisors are relatively small players in the 401k market.
- And, within Brightscope sample, **the overlap in mutual fund offers due to a shared advisor is estimated to be much smaller.**

	Dvorak's Advisors (n = 14)		Dvorak's Advisors' Clients (n = 864)		Other Plans in Brightscope (n = 17,028)	
	Count	AUM	Count	AUM	Count	AUM
Brokerage	0.6%	0.1%	0.6%	2.8%	0.5%	1.5%
Collective Trust	10.3%	19.3%	5.1%	24.9%	2.8%	15.0%
Common Stock	0.9%	0.0%	0.4%	5.0%	0.3%	2.7%
Company Stock	0.9%	1.5%	0.6%	6.8%	0.4%	10.6%
GIC	3.1%	12.2%	4.3%	15.3%	2.9%	14.2%
Loans	3.1%	1.4%	3.0%	1.6%	2.5%	1.8%
Mutual Fund	77.1%	61.8%	57.5%	38.4%	69.5%	46.1%
Other	3.8%	3.7%	1.5%	2.9%	0.9%	2.7%
Separate Account	0.0%	0.0%	26.9%	2.3%	20.2%	5.3%
TOTAL	319	4.46 B	23,429	275.45 B	511,667	2,215.11 B
% FULL SAMPLE	0.1%	0.2%	4.4%	11.0%	95.6%	88.8%

- *Note: While mutual funds account for ~70% of options, they account for less than 50% of AUM → **More investments to consider.***

What Drives Choice of Menu?

- **Benchmarking:** Should advisors and clients have similar menus?
- **Ideally, a firm's investment menu (and default option) should internalize the labor income risks of its employees.**
 - The fact that company stock still accounts for 10.6% of 401(k) holdings doesn't bode well in terms of optimal design.
- Dvorak finds evidence that state matters more than industry when explaining overlap in investment menus → **Intriguing**
- Balduzzi and Reuter (2012) document heterogeneity in glide paths of target-date funds, which are popular default option → **Do riskier firms offer less risky default investments?**
- To test this hypothesis, I regressed the beta of the 2020 TDF in a firm's 401(k) plan on measures of its systematic and idiosyncratic risk → **Estimated coefficients (and SEs) are close to zero.**
- **Matching between TDFs and firms appears to be at random!**

Other Research Questions

- **Do the investment menus of public and private firms differ in interesting ways?**
 - Most existing studies are based on 11-K filings, which cover subset of publicly traded firms. Dvorak focuses on Form 5500, which covers public and private firms.
 - Are private firms more likely to choose trustees in the same city or state? Are non-profits more likely to choose trustees with high-cost investment options?
- **What do MF families put into their own investment menus?**
 - Diane Del Guercio and I have been pondering this question, which combines Dvorak's paper with the first paper in the program.
 - **Spoiler alert:** Goldman Sachs' investment menu does NOT include any Goldman Sachs products.