

March 2016

# In Whose Best Interest?

*What Americans know and  
what they want when it comes  
to retirement investment advice*

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## EXECUTIVE SUMMARY

The United States Department of Labor is on the cusp of finalizing a new rule to require financial advisors, who provide advice on retirement assets, to serve as “fiduciaries.” This means that financial advisors would be required by law to put the interests of their customers first. While some financial advisory companies already offer advice as fiduciaries, currently most do not. The new “conflict-of-interest” rule has the potential to fundamentally change the landscape of retirement investment advice.

The rule could cause a sea change in the status quo. Currently, financial advisors are legally permitted to steer investors’ retirement assets into investment funds that are not necessarily in their clients’ best interests due to high cost and/or bad performance, but that may be more lucrative for the advisor. Under the new rule, this would no longer be permitted. All financial advisors providing investment advice on retirement assets would instead be required to meet the fiduciary standard of care, legally accountable for placing their clients’ interest before their own. At stake is the retirement security of 89 million retirement investors who must make their own investment decisions as participants in defined-contribution plans, and who, more than ever, need high quality retirement advice.<sup>1</sup>

With the conflict-of-interest rule pending, Financial Engines surveyed U.S. adults to gain deeper insight into their understanding about the fiduciary concept, and their feelings about the intent of the proposed new fiduciary rule. This survey was conducted in February 2016.

### Key findings from the survey:

- Almost half (46 percent) of Americans mistakenly believe that all financial advisors are already required to put their clients’ interests first when it comes to retirement;
- Among adults who already work with a financial advisor, 41 percent said they do not know if their financial advisor is a fiduciary who is legally required to put their clients’ best interests first;
- More than nine out of ten (93 percent) Americans said it is important that all financial advisors be legally required to put their clients’ best interests first when providing retirement investment advice;
- When they learn what a fiduciary is, over three-fourths (77 percent) of Americans stated that they are in favor of **legally requiring** financial advisors who provide retirement investment advice to put their clients’ best interests first.

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Regardless of the outcome of the Department of Labor fiduciary rule, the question of whose best interest is primary—the investor’s or the advisor’s—will continue to be a critical topic in the retirement advice field. Financial Engines, for whom operating as a fiduciary is a founding core principle, will continue providing unconflicted investment advice, regardless of the ultimate outcome of the proposed rule.

## METHODOLOGY

This report presents the findings of a survey conducted among a sample of 1,018 adults comprising 510 men and 508 women. The CARAVAN® ORC International online omnibus study is conducted twice a week among a demographically representative U.S. sample of adults 18 years of age and older. This survey was conducted from February 22, 2016 to February 24, 2016. The data was weighted to reflect the demographic composition of the U.S. population over age 18. Percentages in the tables and charts may not total to 100 due to rounding and/or omitted categories.

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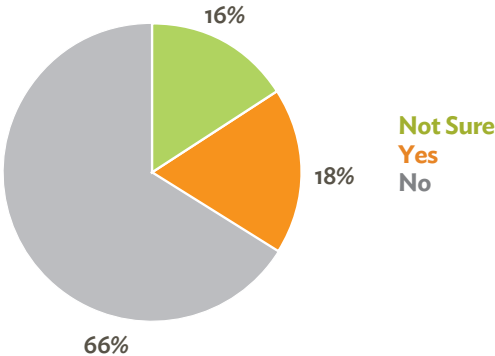
**KEY FINDINGS FROM THE SURVEY**

**How much do people know about the concept of fiduciary status among financial advisors?**

**Most Americans say they do not know what a “fiduciary” is when it comes to financial advisors—two-thirds of American adults (66 percent) stated that they do *not* know the difference between a financial advisor who is a “fiduciary” and one who is not.**

Less than one in five (18 percent) of American adults said they know the difference between a financial advisor who is a “fiduciary” and one who is not. Adults earning over \$75,000 per year and those with a college education were more likely than average to say they understood the difference (25+ percent, and 30 percent respectively). Conversely, those earning lower incomes were more likely to say they did not know the difference. A relatively small proportion—16 percent—are not sure if they know the difference or not.

**Figure 1. Do you know the difference between a financial advisor who is a “fiduciary” and one who is not?**



Source: Financial Engines, 2016  
N=1018, all survey respondents

In this question, the survey questionnaire did not define the meaning of the word fiduciary; and, the responses above by survey participants may reflect a lack of familiarity with the term “fiduciary.” When discussing this concept with investors it is important to define the word fiduciary to ensure accurate understanding of the concept.

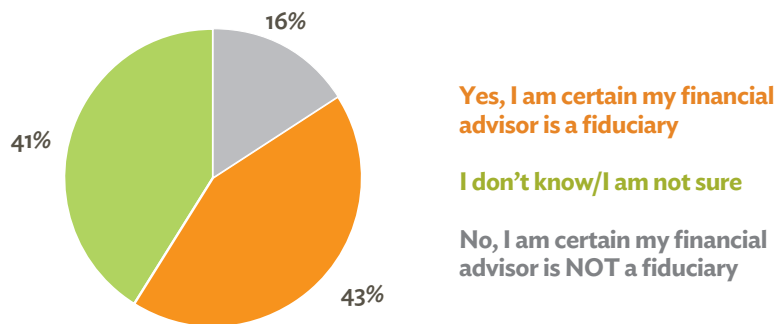
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**Among adults who already work with a financial advisor, a large portion are not sure if their advisor is a fiduciary or not—two in five (41 percent) said “I don’t know/I am not sure.”**

**In this question, we defined the word “fiduciary” to mean a financial advisor “who is legally required to put your best interest ahead of their own when they give you investment advice.”**

A similar proportion of respondents—43 percent—reported being “certain” that their financial advisor **is** a fiduciary. Additionally, 16 percent said “No, I am certain my financial advisor is **not** a fiduciary.”

**Figure 2. Is your financial advisor a “fiduciary”, meaning he or she is legally required to put your best interest ahead of their own when they give you investment advice?**



Source: Financial Engines, 2016  
N=262, survey respondents who currently work with a financial advisor

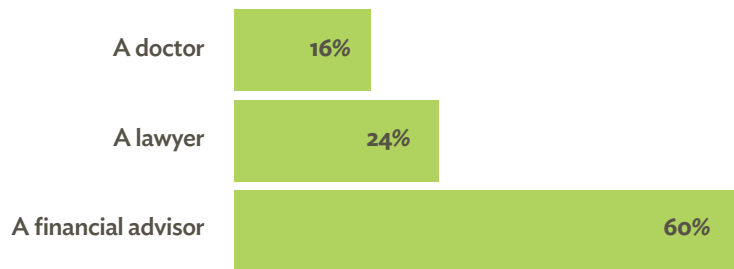
**When asked in other ways, people appeared to have more knowledge about the fiduciary concept than they initially reported, though deep gaps in knowledge exist.**

**Most people correctly surmise that financial advisors adhere to a lower level of obligation to act in their clients’ best interest compared to lawyers or doctors.** The survey asked respondents to pick which type of professional “is **not** legally required to put your best interests first” (e.g. not a fiduciary). The choices were between a lawyer, a doctor, and a financial advisor. The majority of respondents correctly picked “financial

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advisor” as the professional who is generally not legally required to put their clients’ best interests first.

**Figure 3. Which one of these is NOT legally required to put their clients’ best interest first?**



Source: Financial Engines, 2016  
N=1018, all survey respondents

**Yet, revealing gaps in knowledge, almost half (46 percent) of American adults *incorrectly stated* that it is “true” that *all* financial advisors are fiduciaries who “are legally required to put the best interests of their clients first, when they give advice on retirement investments.”**

Therefore, almost half (46 percent) of American adults do not accurately understand that there is currently no legal requirement that financial advisors act as fiduciaries; and, therefore, that **not all** financial advisors are **legally accountable** for putting their clients’ best interests first when they are giving advice on how to invest their retirement assets. Currently, only financial advisors who voluntarily agree to meet the terms of the fiduciary standard are legally accountable for putting their clients’ best interest first. Many unsuspecting Americans are under the false impression that financial advisors are already legally required to put their clients’ best interest first.

However, more than half (54 percent) did correctly identify that financial advisors do not have a legal duty to put the interests of their clients first.

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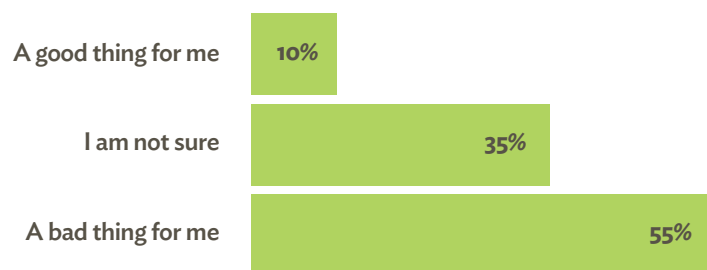
## What are peoples' opinions about the lack of requirements for fiduciary status among financial advisors?

The survey asked respondents whether or not it was a good thing for them that certain conflicts of interest are currently allowed among financial advisors providing retirement advice. The question stated:

*Financial advisors are currently allowed to get paid commissions from mutual fund companies in return for steering their clients' retirement money into certain investment funds. Those investment funds may have higher fees and lower returns than other available options. Do you think this is “a good thing for me” or a “bad thing for me” or “I’m not sure”?*

**The majority (55 percent) of adults answered that the types of conflicts of interest posed by the commission payment structure is “a bad thing for me” compared to only 10 percent who said it is “a good thing for me” and 35 percent who said “I’m not sure”.**

**Figure 4. Payment structures that create conflicts of interest in investment advice are...**

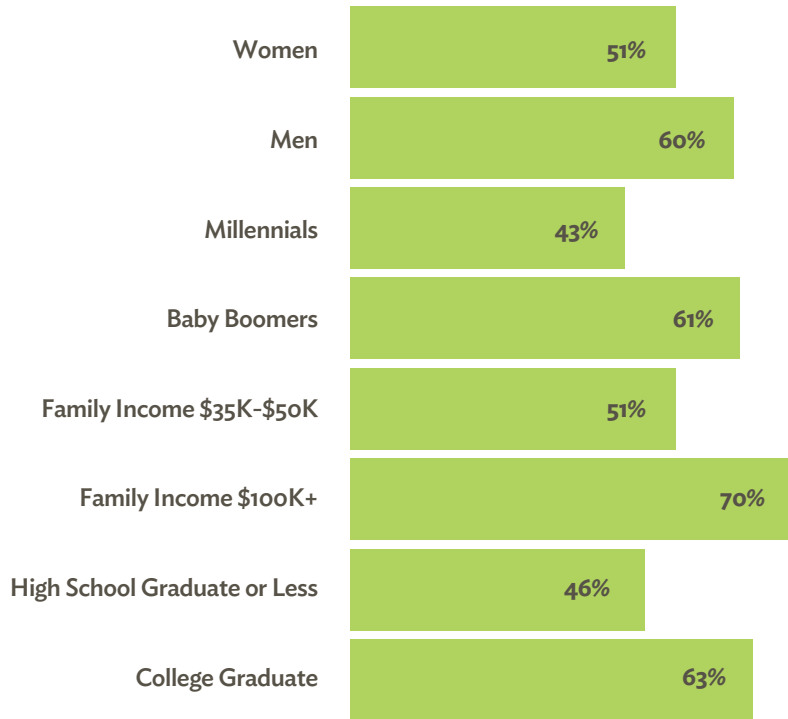


Source: Financial Engines, 2016  
N=1018, all survey respondents

Older generations—61 percent of Baby Boomers—were more likely to report this is “a bad thing for me,” than younger Millennials, 43 percent of whom agreed that this “is a bad thing for me.” This indicates greater awareness of the issue of conflicts of interest in financial advice as people age. Men (60 percent) were also more likely than women (51 percent) to state that this conflict-of-interest was a bad thing for them. Additionally, people who earn higher incomes (\$100,000 or more) were more likely than lower/middle-income people to state that this was “a bad thing for me.”

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**Figure 5. Percent who agree that conflicted payment structures are “a bad thing for me.”**



Source: Financial Engines, 2016  
N=1018, all survey respondents

### How do people feel about requiring all financial advisors who provide advice on retirement assets to act as fiduciaries who are legally required to put their clients’ best interest first?

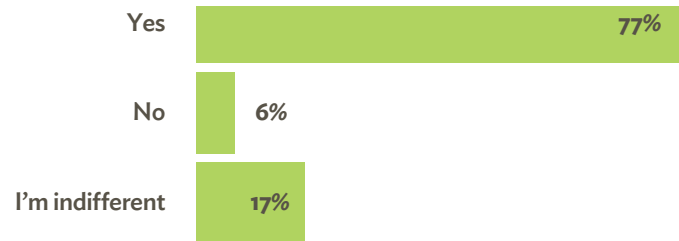
**Over three in four (77 percent) American adults said they would support requiring all financial advisors who provide advice on retirement assets to be legally required to put their clients’ best interest first.**

This finding lends support to the notion that most Americans would support the general intent of the proposed conflict-of-interest rule, which would legally require financial advisors to put their clients’ best interest first when offering advice on retirement assets.



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**Figure 6. Would you support requiring all financial advisors who provide advice on retirement assets to be legally required to put their clients' best interest first?**



Source: Financial Engines, 2016  
N=1018, all survey respondents

**Moreover, the overwhelming majority of Americans—over nine in ten (93 percent) – said it is important that all financial advisors be legally required to put their clients' best interest first when providing advice on retirement savings. Thus, almost all Americans believe that the underlying intent of the conflict-of-interest rule is important.**

**Figure 7. Ninety-three percent of American adults stated that it is important that all financial advisors be legally required to put their clients' best interest first when providing retirement advice**



**The intensity of this belief was strong, with 73 percent of retirement investors saying it was very important and an additional 21 percent saying it was somewhat important that financial advisors be “legally required to act in their clients' best interests.”**

Currently, 74 percent of American adults do not work with an advisor. The survey queried respondents as to whether they would be more or less likely to work with a financial advisor, if they knew that the financial advisor was **legally required** to put their best interest first. Sixty-three percent of respondents reported they would be more likely work with a financial advisor, if they knew the advisor was a fiduciary, legally required to put their clients' best interest first.

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## CONCLUSION

The survey results clearly demonstrate a need for a fiduciary rule to limit conflicts of interest that are common among financial advisors providing advice on retirement assets. Almost half (46 percent) of American adults mistakenly believe that financial advisors are currently required to act as fiduciaries. Moreover, even among Americans who already work with a financial advisor, two in five (41 percent) were “not sure” if their advisor was a fiduciary or not. This means that many unsuspecting Americans are at risk of placing their hard-earned retirement savings into the hands of someone who may not necessarily give them investment advice that is in their best interest. The fiduciary rule is needed to bring clarity to the financial advice field. In addition, the fiduciary rule will make it easier for Americans to find financial advisors who do not just say they are placing their clients’ best interest first in marketing campaigns, but are legally accountable for doing so.

Moreover, the overwhelming majority (93 percent) of Americans believe it is important that all financial advisors be legally required to put their clients’ best interest first when providing advice on retirement assets. And over three-fourths (77 percent) stated that they would support requiring all financial advisors who provide retirement investment advice to be legally required to put their clients’ best interest first. This survey shows strong public support for actions to require that a fiduciary standard of care apply to financial advisors providing retirement advice.

Americans rely on financial advisors to help them achieve a secure retirement; they deserve legal assurance that the investment advice they receive is in fact made in their best interest. Given the tens of millions of American adults who are responsible for investing their retirement assets in defined-contribution plans, it is imperative that our nation maximize their chances of retirement success by requiring that all financial advisors uphold the fiduciary standard of care.

## Endnotes

<sup>1</sup> 401(k) Fast Facts, (Washington, DC: American Benefits Council, 2014) [http://www.americanbenefitscouncil.org/documents2013/401k\\_stats.pdf](http://www.americanbenefitscouncil.org/documents2013/401k_stats.pdf)

## About Financial Engines

Financial Engines is America's largest independent investment advisor.\* We help people make the most of their money by providing full-service financial planning, including professional investment management and advice. Headquartered in Sunnyvale, CA, Financial Engines was co-founded in 1996 by Nobel Prize-winning economist William F. Sharpe. We serve as a comprehensive financial advisor for our workplace customers, and offer help to more than nine million people across over 670 companies (including 143 of the Fortune 500) as of December 31, 2015. Our unique approach, combined with powerful online services, dedicated advisors and personal attention, promotes greater financial wellness and helps more Americans meet their financial goals.

For more information, please visit [www.financialengines.com](http://www.financialengines.com).

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