In Whose Best Interest? (Part 2)

A Financial Engines Survey on the Conflict of Interest Rule

April 2017

Financial Engines®

Executive Summary

In 2016, the United States Department of Labor passed a new regulation requiring financial advisors who provide retirement advice to serve as fiduciaries. By law, they would be required to put their customers' interests ahead of their own. Originally due to take effect on April 10, 2017, the rule was delayed 60 days by the new Administration and a modified version is now currently scheduled to go into effect on June 9th, 2017.

In early 2016, Financial Engines surveyed consumers to explore their understanding of the fiduciary concept and their feelings about it. One year later, we surveyed consumers again to see if their awareness and attitudes had changed.

While the rule's future is uncertain, the retirement security of 89 million Americans is at stake. As more Americans make their own investment decisions in defined contribution plans and other retirement accounts, high-quality, conflict-free retirement advice is needed now more than ever.

Key findings from the 2017 Financial Engines survey include:

Americans overwhelmingly favor the intent of the conflict of interest rule, despite its uncertain future.

- Unchanged from 2016, 93 percent of Americans think it is important that all financial advisors who provide retirement advice should be legally required to put their clients' best interest first.

More education is needed on the fiduciary concept.

- More than half of respondents (53 percent) mistakenly believe that financial advisors are already legally required to put their clients' best interests first when they give retirement advice.
  - This is up from the 46 percent of respondents in 2016 who also mistakenly believed this to be true.
- Americans have a marginally better understanding of the difference between a financial advisor who is a fiduciary and one who is not (21 percent understand the difference today, compared to 18 percent a year ago).
- Many Americans still don't know how to tell if an advisor is a fiduciary.
  - Only half of Americans surveyed who work with a financial advisor are certain that their advisor is a fiduciary (50 percent), up from 43 percent in 2016. Thirty-eight percent don't know if their advisor is a fiduciary or not.
  - Many financial firms and advisors parse their words carefully to give the appearance of being a fiduciary, even when they are not.

Investors are not afraid to act if they learn that their advisor is not a fiduciary.

- The majority (88 percent) of survey respondents said that they would:
  - Ask more questions about the investments their advisor recommends (47 percent)
  - Switch to another advisor (23 percent)
  - End their work with a financial advisor altogether (18 percent)
- Only 12 percent would continue working with the same advisor in the same capacity.
- 60 percent would consider seeking help to determine which financial advisors would put their best interest first.
- While the debate over the fiduciary rule has raised consumer awareness, investors must still be careful to demand advisors that act in the sole best interests of their clients.

Additional highlights

- More than half of consumers (53 percent) feel that investment advisors should be regulated by the federal government.
- Only 15 percent of Americans think that employers should be allowed to offer services from advisors who are not fiduciaries.
- Only about one-quarter of Americans (28 percent) understand that average-income investors will benefit most from the fiduciary rule.

Methodology

This report presents the findings of a survey conducted by ORC International among a sample of 1,025 adults comprising 509 men and 516 women 18 years of age and older. The data is weighted to reflect the demographic composition of the U.S. population over age 18. This survey was live on March 2-5, 2017.

Percentages in the tables and charts may not total to 100 due to rounding and/or omitted categories. The margin of error associated with a sample of 1,025 is +/-3.06%.

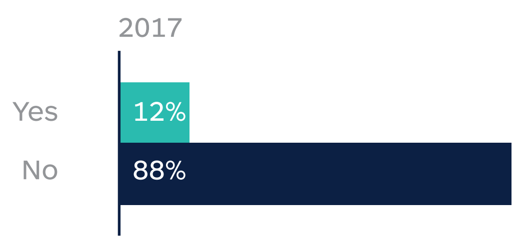
Full Results

Following are the questions we asked consumers and the corresponding responses.

1. Which one of these is NOT legally required to put your best interest first?

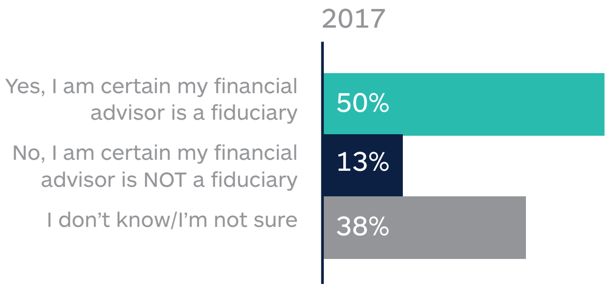
2. Do you currently work with a financial advisor?

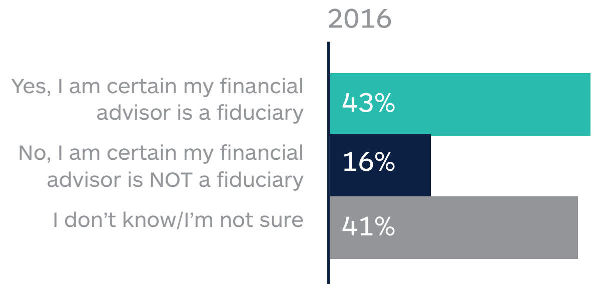
3. Are you using a financial advisor or advisory service available through your employer?



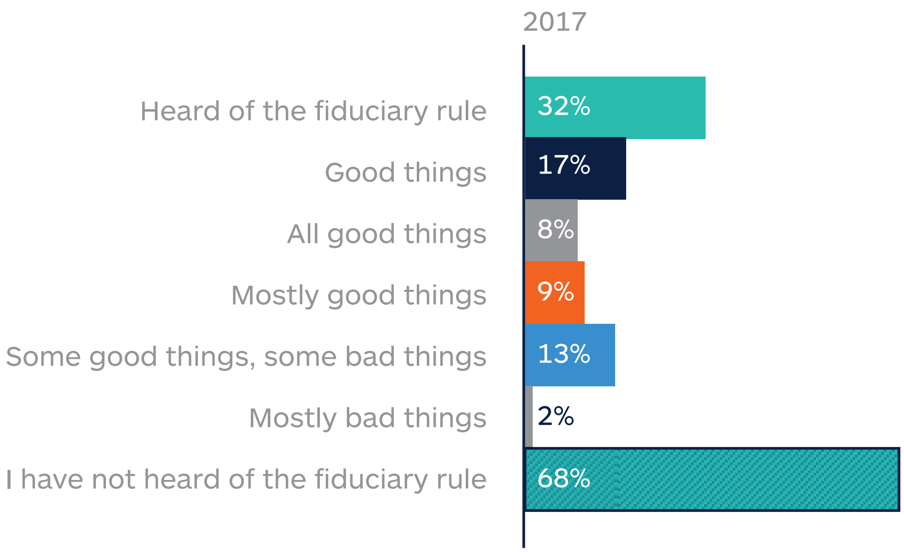
4. Do you know the difference between a financial advisor who is a ‘fiduciary’ and one who is not?

5. 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? (Base=currently work with a financial advisor)



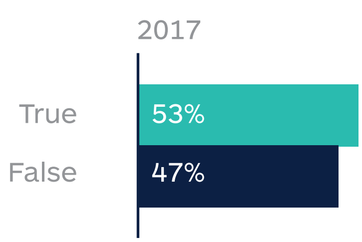


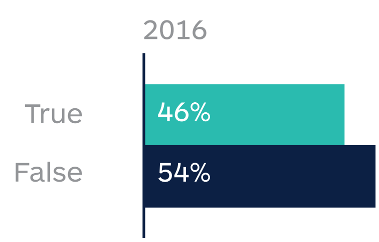
6. What have you heard about the U.S. Department of Labor’s ‘fiduciary rule’ regulation?



7. Are each of the following statements true or false?

All financial advisors are legally required to put the best interests of their clients first when they give advice on retirement investments

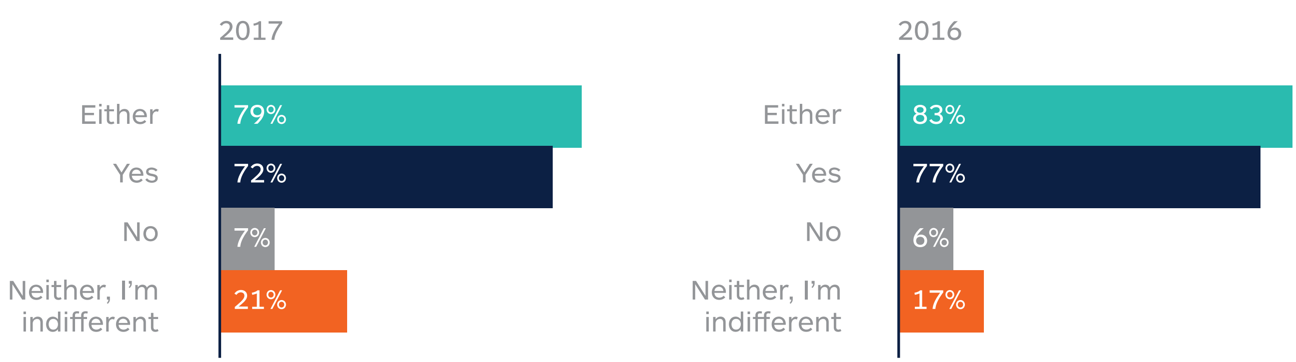




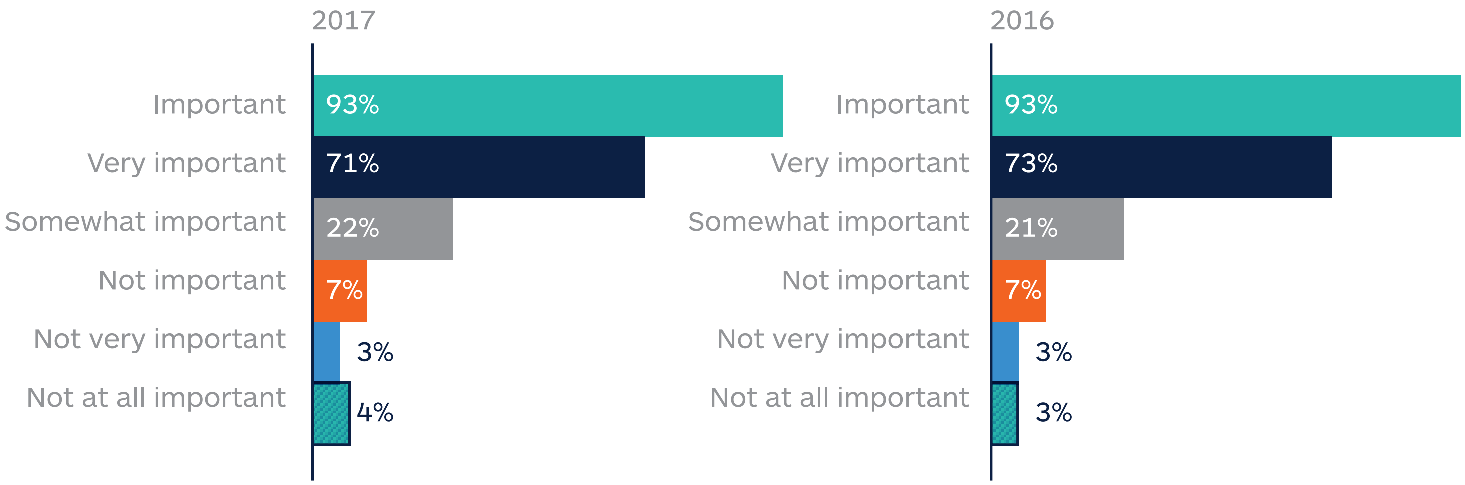
8. **Financial advisors are legally allowed to accept commissions from investment companies in return for steering clients' retirement savings into certain investment funds**

9. **Financial advisors are currently allowed to get paid commissions from mutual fund companies in return for steering their clients' money into certain investment funds. Those investment funds may have higher fees and lower returns than other available options. Do you think this is...?**

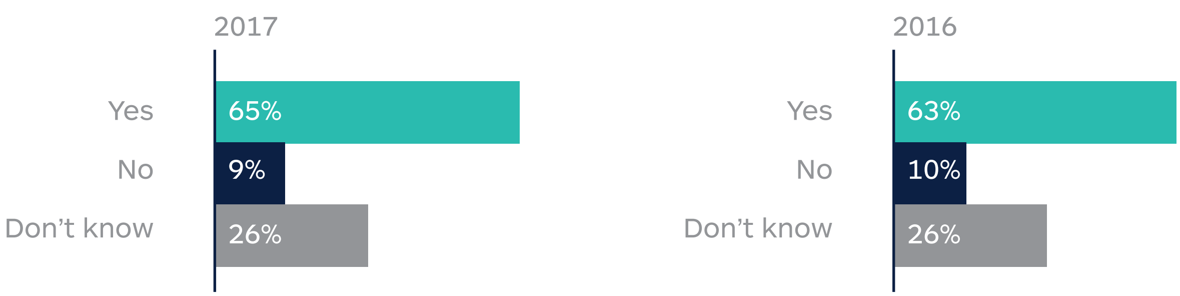
10. **Would you support requiring all financial advisors who provide advice on retirement assets to be legally required to put your best interest first?**



11. How important do you think it is that all financial advisors providing advice on retirement savings be legally required to put your best interest first?

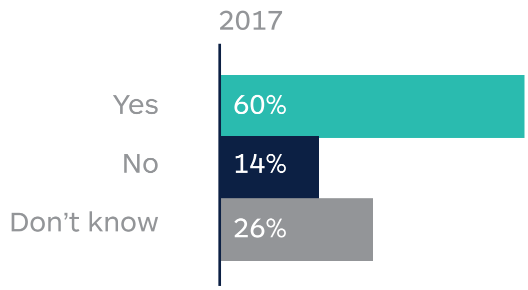


12. If you knew that the financial advisor was "legally required to put your best interest first" would you be more likely or less likely to want to work with them?

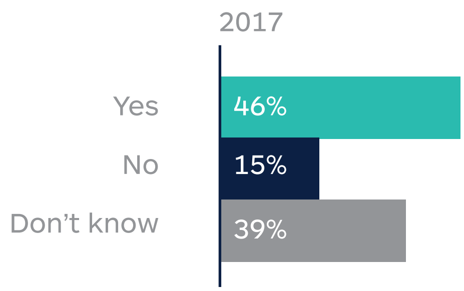


13. If your financial advisor was not a fiduciary, would you:

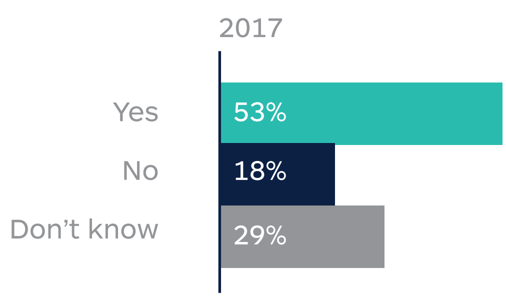
14. Would you consider seeking help to determine which financial advisors would put your best interest first?



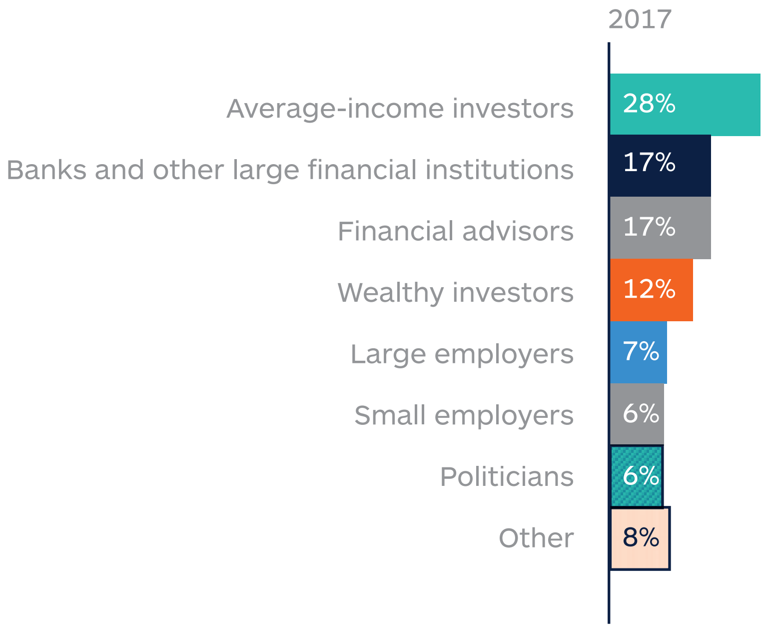
15. When providing financial advisory services as an employee benefit, should employers be obligated to offer services only from advisors who are fiduciaries?



16. Do you feel that investment advisors should be regulated by the federal government?



17. Who do you think stands to benefit the most from the fiduciary rule?



About Financial Engines

Financial Engines is America's largest independent investment advisor. We help people achieve greater financial clarity by providing comprehensive financial planning and 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 currently offer financial help to more than 9 million people across over 700 companies (including 147 of the Fortune 500). Our unique approach, combined with powerful online services, dedicated advisors and personal attention, promotes greater financial wellness and helps more Americans to meet their financial goals.

For more information, please visit www.financialengines.com.

All advisory services provided by Financial Engines Advisors L.L.C. Financial Engines does not guarantee future results.

Financial Engines®

1050 Enterprise Way, 3rd Floor
Sunnyvale, CA 94089

www.financialengines.com

041817
CPY18751