SHOULD FINANCIAL ADVISORS PUT YOUR INTEREST FIRST?
AN AARP SURVEY OF RETAIL INVESTORS ABOUT ADVISOR-CLIENT RELATIONSHIPS AND FEES

August 2020
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Key Findings</td>
<td>4</td>
</tr>
<tr>
<td>Investment Accounts Owned</td>
<td>6</td>
</tr>
<tr>
<td>Financial Advisors</td>
<td>12</td>
</tr>
<tr>
<td>Summary and Implications</td>
<td>20</td>
</tr>
<tr>
<td>Methodology</td>
<td>23</td>
</tr>
<tr>
<td>Appendix</td>
<td>30</td>
</tr>
</tbody>
</table>
Introduction

Millions of Americans depend on retirement savings accounts and other investment accounts (such as 529 plans, health savings plans and life insurance policies) to meet their long-term savings goals. These plans often involve complex financial decisions and risks, so many turn to financial professionals to help them decide which options are best for them.

Recently, however, the U.S. Securities and Exchange Commission (SEC) approved a new regulation (i.e., Regulation Best Interest) that essentially lessened the standard of care that financial professionals (i.e., financial advisers and broker-dealers) are required to comply with when providing investment advice to their clients. Although the new regulation states that broker/dealers must act in the “best interest” of their clients, it fell short of defining exactly what that term means operationally. The regulation explicitly states that it does not mean that financial advisors provide a fiduciary standard of care. Despite its name, Regulation Best Interest does not require that financial advisors put their client’s interest above their own financial interests. During a pandemic, that has caused a health and financial crisis in the lives of many, Americans will need sound financial advice from Fiduciaries that are regulated by a Code of Standard that requires the best interest of the client.

To better understand investors’ awareness and views of the SEC’s Regulation Best Interest ruling and also their understanding of the fees and expenses they pay for investment products and financial advice, AARP conducted a national survey of 1,577 adults ages 25 and older who have money saved in retirement savings accounts and/or other investment accounts.

The survey has a margin of error of ± 3.5 percent. In addition to this report, the annotated questionnaire and full methodology report for this study may be viewed at www.aarp.org/investorsurvey.

NOTE: This survey was fielded prior to the COVID-19 pandemic.
Key Findings

➢ Large numbers of investors either currently or will in the future seek financial guidance from professional financial advisors.

➢ Today, investors are managing multiple accounts that are often diversified across multiple financial institutions.

➢ However, many investors have limited knowledge about whether they pay any fees and/or expenses for their investments as well as how much they are paying.

➢ Most investors at least somewhat trust the financial advisors and/or financial institutions that manage their investment accounts, with nearly two in five investors saying they trust them completely.

➢ However, most investors also think financial advisors are likely to sell them higher-priced investment products in order to maximize their earnings — a conduct that they deem unacceptable.

➢ A large majority of investors are not aware of the SEC’s recent ruling (i.e., Regulation Best Interest) that, despite its name, does not require financial advisors to put their client’s interest above their own financial interest.

➢ Upon learning about the SEC’s recent ruling, the large majority of investors oppose it, with half saying they strongly oppose it.
Most investors have retirement savings accounts as well as other types of investment accounts.

Types of Investment Accounts Owned

- Retirement Savings Accounts: 90%
- Other Investment Accounts: 70%

Specific Mix of Investment Accounts Owned

- BOTH Retirement Savings and Other Investment Accounts: 62%
- Retirement Savings Accounts ONLY: 29%
- Other Investment Accounts ONLY: 9%

SCR1. Do you currently have money saved in a retirement savings account, such as, a 401(k), 403(b), or a ROTH or traditional individual retirement account (IRA), for which you make the investment decisions? This includes retirement savings accounts in which you currently have money, even if you are no longer contributing to them. This does not include direct benefits retirement programs like a pension or social security. (n=1,577)

SCR2. Do you currently have any other savings invested in stocks, bonds, mutual or money funds, CDs, or annuities? This could include a basic investment account, 529 savings plan, health savings account, life insurance, or any other investment account for which you make the investment decisions. (n=1,577)
Seven in ten investors have at least two investment accounts. Among those with multiple investment accounts, the large majority do not use the same financial institution to manage all of their accounts.

Notably, investors age 50 and older (76%) are more likely than those under 50 (65%) to have multiple investment accounts. However, they are just as likely as their younger counterparts to report that not all of their accounts are managed by the same financial institution.

Q1. How many [retirement/investment] savings accounts do you currently own, whether solely or jointly with someone else? Please count separately multiple accounts you might have with the same financial institutions. (n=1,577)

Q2. Does the same financial institution manage all of your investment accounts? (n=1,124)
The median amount that investors currently have in savings and investments ranges between $50,000 and $99,999.

This amount varies by age group, however. The median savings and investments among investors age 50 and older ranges between $150,000 and $199,999, but ranges between $25,000 and $49,999 among those under 50.

<table>
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<tr>
<th>Current Amount of Investors’ Savings and Investments</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $1,000</td>
<td>6%</td>
</tr>
<tr>
<td>$1,000 to less than $10,000</td>
<td>11%</td>
</tr>
<tr>
<td>$10,000 to less than $25,000</td>
<td>7%</td>
</tr>
<tr>
<td>$25,000 to less than $50,000</td>
<td>12%</td>
</tr>
<tr>
<td>$50,000 to less than $100,000</td>
<td>13%</td>
</tr>
<tr>
<td>$100,000 to less than $150,000</td>
<td>9%</td>
</tr>
<tr>
<td>$150,000 to less than $200,000</td>
<td>6%</td>
</tr>
<tr>
<td>$200,000 to less than $250,000</td>
<td>4%</td>
</tr>
<tr>
<td>$250,000 to less than $500,000</td>
<td>10%</td>
</tr>
<tr>
<td>$500,000 to $1 million or more</td>
<td>8%</td>
</tr>
<tr>
<td>Less than $1 million or more</td>
<td>7%</td>
</tr>
<tr>
<td>Don't know</td>
<td>6%</td>
</tr>
</tbody>
</table>

Q7. In total, about how much money would you say you currently have in savings and investments, not including the value of your primary residence or other investment properties? (Please include savings, certificates of deposits, stocks, bonds, mutual funds, employer-sponsored retirement savings plans, and other investments, but do not include the value of defined benefit plans). (n=1,577)
Most investors feel they are at least somewhat knowledgeable about their investments.

Q6. How knowledgeable do you feel you are about your investments? (n=1,577)

- Not at all Knowledgable: 6%
- Not too Knowledgable: 25%
- Somewhat Knowledgable: 54%
- Very Knowledgable: 14%
Yet, two in five investors mistakenly think they don’t pay any fees or expenses for their investment accounts. One in ten is not sure.

And, among those who report paying fees and expenses for their investment accounts, most don’t know how much they are paying.

Q3. Do you pay any fees or expenses for your investment account(s)? (n=1,577)

- Yes 47%
- No 41%
- Not sure 12%

Q4. Do you know how much, in total, that you are paying in fees and expenses for your investment account(s)? (n=761)

- Knows the amount they pay, 38%
- Does not know the amount they pay, 62%
FINANCIAL ADVISORS
The large majority of investors at least somewhat trust the financial institutions and/or financial advisors who manage their investment accounts.

Nearly two in five trust them completely.

Q5. If owns at least one investment savings account in Q1]. Generally, how much do you trust or distrust the financial institutions or advisors that manage your investment accounts? (n=1,529)
Investors most often receive financial advice or expect to receive advice from Certified Financial Planners, accountants and insurance agents.

Just over a third of investors say they have received or expect to receive advice from Broker/Dealers or Registered Investment Advisers.

### Professionals from Whom Investors have Received Financial Advice

<table>
<thead>
<tr>
<th>Professional</th>
<th>Have Not and Don’t Expect to Receive Advice from this Professional</th>
<th>Have Not But Expect to Receive Advice from this Professional</th>
<th>Have Received Advice from this Professional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified Financial Planner</td>
<td>34%</td>
<td>19%</td>
<td>31%</td>
</tr>
<tr>
<td>Personal Accountant/CPA</td>
<td>37%</td>
<td>17%</td>
<td>31%</td>
</tr>
<tr>
<td>Insurance Agent</td>
<td>46%</td>
<td>11%</td>
<td>28%</td>
</tr>
<tr>
<td>Broker/Dealer</td>
<td>43%</td>
<td>14%</td>
<td>22%</td>
</tr>
<tr>
<td>Registered Investment Advisor</td>
<td>40%</td>
<td>16%</td>
<td>20%</td>
</tr>
<tr>
<td>Lawyer</td>
<td>46%</td>
<td>20%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Q8. Have you ever received, or do you expect to receive at some point, professional financial advice from any of the following? (n=1,577)
Most investors receiving financial advice from a Broker/Dealer, Registered Investment Advisor or Certified Financial Planner compensated them based on a percentage of assets that the advisor managed.

Transactional fees also were cited often by those using broker/dealers and registered financial advisors. Notably, about one in five investors using registered investment advisors or certified financial planners mistakenly think they did not pay any compensation for their financial advice.

**Broker/Dealer**
- Paid percentage based on level of assets: 45%
- Paid each time a transaction is made: 32%
- No compensation provided: 13%
- Don’t know: 10%
- Paid a retainer fee for a set amount: 8%
- Other: 4%
- Paid an hourly fee: 3%

**Registered Investment Advisor**
- Paid percentage based on level of assets: 33%
- Paid each time a transaction is made: 21%
- Don’t know: 19%
- No compensation provided: 17%
- Paid a retainer fee for a set amount: 11%
- Paid an hourly fee: 5%
- Other: 2%

**Certified Financial Planner**
- Percentage fee based on level of assets: 32%
- No compensation provided: 21%
- Paid a retainer fee for a set amount: 15%
- Paid each time a transaction is made: 14%
- Don’t know: 12%
- Paid an hourly fee: 7%
- Other: 4%

Q9. Which of the following describes how your broker/dealer was compensated? (n=348)

Q9. Which of the following describes how your registered investment advisor (RIA) was compensated? (n=339)

Q9. Which of the following describes how your certified financial planner was compensated? (n=498)
Two in three investors think that it would be unacceptable for financial advisors to maximize their earnings by selling their clients higher cost investment products when similar lower cost investment products are available.

Q10. In your opinion, how acceptable would it be for an advisor to sell investments that cost you more (and provide higher earnings for the advisor), rather than sell you similar investments that cost you less (and provide lower earnings for the advisor)? (n=1,577)
However, almost three in five investors think financial advisors are likely to maximize their earnings by selling their clients higher-cost investment products even though similar lower-cost investment products are available.

Q11. In your opinion, how likely or unlikely would an advisor sell consumers higher-cost investments that provide the advisor higher earnings, rather than sell similar but lower-cost investments that provide lower earnings for the advisor? (n=1,577).
More than four in five investors are not aware of the SEC’s recent ruling regarding financial advisors (i.e., Regulation Best Interest)

Prior Awareness of the SEC’s Regulation Best Interest Ruling

Q12. Were you aware that recently the Securities and Exchange Commission (SEC) issued a new regulation (i.e., “Regulation Best Interest”) that—despite its name—does not require all financial advisors to put their client’s interest above their own financial interest? (n=1,577)
Upon learning that the SEC’s Regulation Best Interest ruling which, despite its name, does not require financial advisors to put their client’s interest above their own financial interest, four in five investors oppose it—with half strongly opposing it.

<table>
<thead>
<tr>
<th>Whether Support or Oppose the Ruling</th>
<th>TOTAL (n=1,577)</th>
<th>Initially Aware (n=276)</th>
<th>Initially Unaware (n=1,299)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Support</td>
<td>5%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Somewhat Support</td>
<td>14%</td>
<td>24%</td>
<td>12%</td>
</tr>
<tr>
<td>Somewhat Oppose</td>
<td>30%</td>
<td>23%</td>
<td>31%</td>
</tr>
<tr>
<td>Strongly Oppose</td>
<td>51%</td>
<td>46%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Q13. [Now that you know / Knowing] that the SEC’s new regulation does not require all financial advisors to put their client’s interest above their own financial interest, how much do you support or oppose this new regulation?
SUMMARY AND IMPLICATIONS
Summary

This survey highlights several findings that suggest retail investors may be at risk of receiving professional financial advice from financial advisors that do not put their interest above their advisor’s financial interest.

➢ The large majority of investors are not aware of the SEC’s recent ruling (i.e., Regulation Best Interest). Although the new regulation states that broker/dealers must act in their client’s best interest, it fails to define what acting in their “best interest” means operationally. And importantly, the regulation does not require financial advisors put their client’s interest above their own. Thus, it is important that investors explicitly ask their financial advisors about the standard of care they provide their clients and whether they have any conflicts of interest. Additionally, when financial advisors provide their investment recommendations, Investors should also ask whether the investments they are recommending are the best options for them (i.e., the client), given their financial goals.

➢ Although nine in ten investors at least somewhat trust the financial advisors and/or institutions that manage their investment accounts, two in five say they trust them completely. Trust is important in any relationship, including one’s relationship with their financial advisor; however it is important that investors evaluate and continually re-evaluate their advisor’s trustworthiness. For example, Investors should periodically check their advisor’s credentials, whether they have had any regulatory violations placed against them, etc. as these indicators may change over time.

➢ More than half (53%) of investors either don’t know they are paying fees and expenses for their investment accounts or are unsure about whether they are paying fees and expenses for them. Fees may vary greatly and even small fees can add up, and may have a significant impact on the investment account’s growth.
Implications

The findings from this survey indicate that greater outreach to investors is needed in the following areas:

➢ Raising awareness of the SEC’s new regulation and how it may impact investors.
➢ Assisting investor’s in researching and vetting current and/or future financial advisors to help ensure that the financial advisor will put their interest first (i.e., above the financial interest of the financial advisor).
➢ Providing information and education regarding investment fees and expenses.
METHODOLOGY
Methodology

This survey was conducted by NORC at the University of Chicago on behalf of AARP. For the national survey of U.S. adults, data were collected using the AmeriSpeak® Panel, a probability-based panel developed by NORC at the University of Chicago. AmeriSpeak is designed to be representative of the U.S. household population.

Interviews for this survey were conducted in English between August 22, 2019 and August 26, 2019, with investors ages 25 and older, representing the 50 states and the District of Columbia. Respondents were randomly selected from the AmeriSpeak Panel using area probability and address-based sampling. A total of 1,577 investors completed the survey.

Once the sample was selected and fielded, and all of the study data collected and made final, weighting was used to adjust for unequal sample selection probabilities under the sample design, survey nonresponse, and frame coverage. Frame coverage was adjusted through raking to align the weighted sample to the population by age, gender, education, race/ethnicity and Census Division. Post-stratification weighting benchmarks were obtained from the 2018 Current Population Survey. The weighted data reflect the U.S. population of adults ages 25 and older. The margin of error for the survey is ± 3.5 percent at the 95 percent confidence level.

In addition to this report, the annotated questionnaire and the full methodology report for this study may be found at www.aarp.org/investorsurvey.

NOTE: This survey was fielded prior to the COVID-19 pandemic.
About AARP

AARP is the nation’s largest nonprofit, nonpartisan organization dedicated to empowering Americans 50 and older to choose how they live as they age. With nearly 38 million members and offices in every state, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, AARP works to strengthen communities and advocate for what matters most to families with a focus on health security, financial stability and personal fulfillment. AARP also works for individuals in the marketplace by sparking new solutions and allowing carefully chosen, high-quality products and services to carry the AARP name. As a trusted source for news and information, AARP produces the nation's largest circulation publications, AARP The Magazine and AARP Bulletin. To learn more, visit [www.aarp.org](http://www.aarp.org) or follow @AARP and @AARPadvocates on social media.
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