Comments for:

Education, Cognitive Performance, and Investment Fees

by John Beshears, James J. Choi, David Laibson, Brigitte C. Madrian, William L. Skimmyhorn, Stephen P. Zeldes

John Sabelhaus
Federal Reserve Board

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Main Takeaways

• Substantial withdrawals/rollovers from TSP
  • 60-69 year olds: 14% withdrawals, 38% to IRAs
  • TSP fees < 5 bp compared to average IRA fees of 57 bp (expense) + 119 bp (advisor)

• More education does not help
  • +Education => slightly more likely to roll
  • +Education => slightly better at finding lower fees
  • On net no meaningful effect
Is Mystery Even Worse? TSP G Fund Returns
Retired federal employees can get a better risk-adjusted return than Steve Goss earns on the $2.8 trillion Social Security Trust Fund!
Do The Right Thing

• Difficult paper for me to discuss
  • Behavioral finance: I usually just try to understand and explain why people like me do wrong thing
  • But I left CBO in 2007, my money still in TSP...

• Comments
  1. Fed employee withdrawals relative to population
  2. Will my spouse eventually do the wrong thing?
  3. Education and financial knowledge are different
Cash Withdrawals

• Federal employees more likely to cash out?
  • Argento, et al (2015) extension looks at separating pre-retirees: 13.8% cash out, 29.5% if “shocked”
  • This paper: 50% of 40-49 year old Feds (and 25% of the dollars) are cashed out at separation

• Mystery might seem worse, because fed employees likely to have higher income
  • Tax data => flat income profile, w/ and w/o shocks
  • Is there a role for DB pension/guaranteed income?
<table>
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<th>Withdrawal Rates Across Job Change and Shock Groups, 2004-2010</th>
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<td><strong>No Shocks</strong></td>
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Notes: Income shocks based on per capita AGI less taxable pensions. Population is all tax units with evidence of pension coverage or retirement accounts. Income shock is defined as a decline of ten percent or more relative to the prior year value. Marital shock is defined as a movement from joint to non-joint filing or joint filing with a different co-filer within past two years. Job change based on employer EINs changing in prior or current year.
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Retirement Account Withdrawal Rates by Income, Shocks, and Job Change

Note: Population is taxpayers ages<55 with evidence of current pension coverage and/or retirement accounts. See income and net taxable definitions on previous slides.

Source: IRS Statistics of Income
Cash Withdrawals

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Why Rollover?

• Authors focus on more flexible IRA investment opportunities and withdrawal options

• Actual reason I am tempted to do the wrong thing is mostly about account consolidation
  • Assume some real cost to having multiple accounts
  • If cost > 52 bps (57 – 5) then rollover makes sense

• Do we know anything else about the employees (years of service?) that may help us predict whether they have multiple accounts?
What Do Advisors Provide?

• Just a higher after-fee risk-adjusted return?

• Advisees might also get
  • Advice about managing Social Security, Medicare supplements, taxes, estates, spousal differences
  • Education itself—advisors help set goals, do cash flow planning, financial concepts, how to use software
  • Immediate attention and response in a time of market turmoil and/or financial crisis, emotional security
  • Protection from (non-licensed) scammers

• Given a terminal bike accident, my spouse will almost certainly consolidate and get an advisor!
Education is Not Financial Education

• My car makes a funny noise, I go to mechanic
  • Retired federal engineer might react differently (and save a lot more than foregone interest!)
  • Why do we expect them to understand finance?

• People often want instructions, not education

• Brings us back to the role of advisors...
  • Authors point out bad advice about TSP rollovers
  • Policy response: counter the bad advice with clear and useful information about differences in fees!
Thanks!

john.sabelhaus@frb.gov