



Article from

Retirement Section News

October 2018

Issue 96

Insights on Fintech, Robo Advice and the 2018 Pension Research Council Symposium

An Interview with Gary Mottola



Gary R. Mottola, Ph.D., is the research director for the FINRA Investor Education Foundation and a social psychologist with over 20 years of research experience, much of which was spent in the financial services industry.

Gary Mottola was one of the authors of papers presented at the 2018 Pension Research Council Symposium on Fin-Tech. This interview provides some insight from Gary.

Can you tell us a little bit about your background and interest in this topic?

I am a social psychologist by training, and my work on retirement and 401(k) plans dates back to my time at Vanguard. I spent 11 years at Vanguard, first working in the Marketing Research Department of their defined contribution business and then working as a researcher in their Center for Retirement Research, where I studied 401(k) participants' investment behaviors. In 2010, I began working as the research director at the

FINRA Investor Education Foundation (www.FinraFoundation.org), where I focus on better understanding financial capability (a component of which is planning ahead), financial fraud, and improving financial disclosures. At the FINRA Foundation, we help Americans build financial stability, invest for life goals, and guard against fraud—so deepening our understanding of, and informing the field about, the factors, traits and behaviors that influence retirement security in the U.S. is an important part of our work. Last, I have authored and co-authored many articles, chapters, and issue briefs focusing on retirement, investor behavior, and financial capability.

What are your major takeaways from the papers and discussions?

One big takeaway is that the concept of a pure robo adviser (also known as a digital investment adviser) likely will not work for decumulation—at least at this point in time. As technology progresses, this may change, but right now decumulation appears too complicated to handle without some human intervention at some points in the decumulation process. As one of the discussants, Peter Shena, noted, some problems are just too complex for robos. As a result, we are seeing a big increase in the rise of the hybrid model—part robo adviser and part human adviser. This increase is not focused on the retirement market, it's a general phenomenon, but one that's particularly relevant to decumulation advice. Jill Fisch also echoed this sentiment when she noted that the demise of the human adviser has been greatly exaggerated. Related, it is also evident that robo advisers, researchers, investor advocates, and regulators have started thinking deeply about important issues related to robo advisers and decumulation, and this is very promising.

Another takeaway was that the definition of robo advisers differed from presentation to presentation. This is not necessarily a problem because it is, in fact, hard to define a robo adviser. That said, it is important for people to understand that definitions vary and to be cognizant that the definition a researcher uses can affect his or her insights and findings.

What are the major findings in your paper and why?

First, I should note that I co-authored this paper with two of my colleagues, Steve Polansky and Peter Chandler. So what did we find?

In short, robo advisers offer opportunities and challenges, both of which we need to be aware of. From an opportunity standpoint, robo platforms offer promise in their ability to provide decumulation services to large numbers of investors, including those with relatively small accounts, at relatively low cost compared to a traditional human adviser. In addition, as with automation and accumulation services, decumulation

robo platforms hold out opportunity to steer investors away from behaviors that can prove detrimental to the spend-down phase such as overconfidence, loss aversion, mental accounting, problematic framing, and more. In short, they can take emotion out of decumulation decision making. Robo consumers will also have a lot of choices. Even at this early stage, there are variations in services, investment selection, decumulation strategies, assumptions, costs, and more—and while these variations are a good thing, they do introduce complications for investors.

From a challenges perspective, robo developers frankly admit that there is no clear winner when it comes to decumulation strategies. An effective decumulation strategy basically requires a full scope financial plan, as opposed to an investment plan for a single account. This requires the robo to take into account a much broader range of factors, including possible multiple investment accounts, multiple streams of income, spouse or partner financial circumstances, when to start claiming Social Security, and health and longevity issues, to name just a few. In light of these complexities, investors and robo firms alike can expect trial-and-error along the way. In addition, investors face the potential challenge of shifting from a relatively passive approach to investing to one where they need to engage actively with the advice platform—be it pure robo or hybrid—as they enter and go through the decumulation phase.

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It will also be important to strike a workable, profitable balance between automated and human advice. The same trial-and-error that can create breakthroughs in service and positive investor outcomes can also create customer frustration and less than satisfactory investor outcomes. Likewise, it is not a given that highly automated solutions can be delivered at low cost, especially over the long term. The most that can be said is that costs will vary by platform and service, as they do with human advice. Customers will need to do their homework to understand what they receive for the fees and expenses they pay, as well as understand what they own and how their investments are managed.

Finally, robos won't solve the financial capability gap that exists in the United States. As evidenced by the FINRA Foundation's

National Financial Capability Study, far too many people do not know the basics of risk and reward, or how core investments such as bonds gain or lose value much less the more complicated concepts such as probability (likely to figure in most robo simulations). Financial educators, including those who work for robo advisers, face considerable challenges in explaining decumulation within a robo platform. There is nothing easy about making one's investments last a lifetime.

Did you find any big surprises as you worked on your paper?

I wouldn't say it was a big surprise, but it was a nice surprise. Our paper is based on industry perceptions of the intersection between robo advising and decumulation, and to make this paper work we needed the cooperation and input of industry participants. To this end, we reached out to many robo advisers, retirement income specialists, and investor advocates—and nearly all of them were very happy to share their insights, experiences, and perspectives with us, and we are quite thankful for their generosity. In the end, we spoke with over a dozen industry participants, and we plan on speaking with several more as we continue to update the paper.

What were your favorite papers and why?

As is typical for this conference, all of the papers and presenters were excellent. I really enjoyed Jim Guszczka's presentation, which was based on his paper titled "Data Science and Behavior Design: Implications for Retirement Security." While I was familiar with many of the behavioral concepts he discussed, his perspective—that is, the perspective of a data scientist—and his examples differed immensely from what I am used to hearing. For instance, citing Don Norman, author of *The Design of Everyday Things*, really made me think about how robo platforms can be designed to improve investor outcomes.

Another presentation I really enjoyed was by Cosmin Munteanu. He presented a paper titled "Designing for Older Adults: Overcoming Barriers toward a Supportive, Safe, and Healthy Retirement." His presentation tackled the issue of fraud, which is becoming increasingly important as boomers begin to retire and move money out of retirement plans. Fraudsters see this as an opportunity, and they are targeting these hard-earned retirement assets. Financial fraud is an important issue to the FINRA Foundation, as well. More information on our work on financial fraud and investor protection can be found at www.SaveAndInvest.org.

It is also worth noting that the questions and discussions following the presentations are nearly as valuable as the presentations. I find it very helpful to hear how people interpret the findings from the papers and how they think the findings can be used to better investor and retirement outcomes.

What else would you like to tell us?

We can't forget about the role of education. That is, we need to figure where education fits into the robo/decumulation process and what needs to be communicated. For example, investors may need assistance interpreting and utilizing the information that many robo advisers provide to their clients. One obvious example is the use of probabilities from Monte Carlo simulations that are often used by robo advisers to communicate the likelihood that their decumulation strategy will succeed—that is, they won't run out of money. People are not particularly good at understanding and using probabilities for decisions, and the manner in which this information is communicated can potentially affect an investor's decisions. Using graphical displays or natural frequencies (for example, saying 5 out of 10 instead of 50 percent) may be a better means of communicating risk than using probabilities—essentially changing the manner in which risks are framed.

In addition, as one interviewee told us, investors may need to be educated about the general approach that a robo adviser uses for decumulation. He noted that they all have tilts—some programs will lead clients toward the purchase of a fixed indexed

annuity for instance. Others will be tilted toward the four percent rule or the automatic de-risking of a portfolio as its market value declines, perhaps resulting in the automatic purchase of a single-premium immediate annuity. A basic understanding of the strategy the adviser uses could help an investor make more informed decisions about which robo adviser best meets his or her needs. This is similar to how a basic understanding of how target-date funds operate—including the glide-path they employ and whether they are 'to' or 'through' retirement—can help investors who are still accumulating assets choose the right target-date fund for their needs.

Last, an investor advocate we spoke with made a point that resonated with us. She noted that by their very nature robo advisers provide accumulation and decumulation advice to a large number of investors—so if the robo adviser makes mistakes then these mistakes will affect many investors. In other words, if robos get it wrong, they get it wrong for lots of people. Of course, the opposite is true, as well. If robos get it right, they have successfully delivered low-cost advice to a large swath of investors. Either way, it is an important point that investors, robo advisers, and regulators need to consider as digital investment advice matures and their market share increases. ■



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