Brokers slammed in PBS documentary

'The Retirement Gamble' blames reps — and the actively managed funds they hawk — for putting retirement savers at risk

By **Jason Kephart**

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The struggles Americans face in saving for retirement are blamed largely on financial advisers in a PBS documentary aired Monday night.

In "The Retirement Gamble," a new film for PBS' "Frontline" series, producers point to the fees investors are charged in their 401(k)s — largely made up of mutual fund fees and commissions — as the biggest obstacle standing in the way of being able to save for retirement.

"The 401(k) is one of the only products Americans buy that they don't know the price of it," says Teresa Ghilarducci, an economist at The New School. "It's one of the products Americans buy that they don't know its quality. It's one of the products Americans buy that they don't know its danger."

Advisers are blamed for steering investors into high-fee investments such as actively managed mutual funds in order to boost their own income. Helaine Olen, author of "Pound Foolish: Exposing the Dark Side of the Personal Finance Industry" (Portfolio Hardcover, 2012) says the term "financial adviser" means almost nothing. "It could be a financial planner," she says. "Or it could be a broker that is a salesman."

Ms. Ghilarducci does not paint a favorable picture of representatives, either. "Basically, your guy is out for himself to maximize his sales, and the way he does it is to be loyal to the mutual fund," she says. "They try to sell you the most profitable products."

Advisers or salesman?

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John Bogle, found of The **Vanguard Group** Inc., speaks of his concerns about possible arrangements between fund firms and the reps who sell their products. "The brokers are getting a little religion here,” he says. “They're saying, 'Why should I distribute your funds unless you pay me to? You get these big management fees — I want some of it. You're getting plenty. Give me some.'”

In the documentary, Mr. Bogle also makes his well-known case for low-cost passively managed index funds for a good portion of the hour-long documentary. He uses a fund that charges 2% in fees and has a 7% average annual return as an example. Over 50 years, Mr. Bogle says, the fees will consume two-thirds of a nest egg.

“The magic of compound returns is overwhelmed by the tyranny of compounding costs,” he says. “Do you want to invest in a system where you put up 100% of the capital, take 100% of the risk and get 30% of the return?”

The failure of actively managed mutual funds, which have an average expense ratio of 1.3%, to consistently beat their index is also highlighted.

“It has been proven right year after year because it can't be proven wrong, Mr. Bogle said,”It's a mathematical certainty.”

Bogle: Index funds are the answer

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Wall Street Journal columnist Jason Zweig says, “One of the ultimate dirty secrets of the fund industry is, a lot of people who run other fund companies own index funds in their own accounts and don't talk about it — unless you put a of couple beers in them.”

Not everyone is willing to concede that index funds are better than actively managed funds.

Christine Marcks, president of Prudential Retirement, says she hasn't seen any research showing that index funds are a better investment for retirement savers. “I haven't seen any research that substantiates that,” she said. “I don't know whether that's true or not.”

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