

Investor Confusion About Brokerage Service & Maintenance Fees



NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION

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SURVEY CONDUCTED BY ORC INTERNATIONAL

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Objectives & Methodology

This report presents the findings of ORC International Telephone CARAVAN® surveys conducted January 8-25, 2015 to determine investor awareness of brokerage service and maintenance fees, and to determine investor preference on various methods to improve fee disclosure.

The surveys were conducted using two probability samples: randomly selected landline telephone numbers and randomly selected mobile (cell) telephone numbers. Overall, 3,033 adults (18 years and older) living in the continental United States were contacted and asked whether they had a brokerage account to hold their stocks, bonds, mutual funds, and/or retirement assets, such as IRAs. Only those who answered “yes” continued to participate in the survey. This sample totaled 1,072 investors (547 male/525 female).

The margin of error for the sample of 1,072 is +/- 2.99% at the 95% confidence level. Smaller subgroups will have larger error margins.

Surveys were collected by trained and supervised U.S. based interviewers using ORC International’s computer assisted telephone interviewing (CATI) system. Final data was adjusted to consider the two sample frames and then weighted by age, gender, region, race/ethnicity and education to be proportionally representative of the U.S. adult population.

Executive Summary

This survey of American investors was conducted in January 2015 to determine investor awareness of brokerage service and maintenance fees, and to determine investor preference on various methods to enhance the accessibility and clarity of fee disclosure.

The survey followed the release of a 2014 study by the Broker-Dealer Section of the North American Securities Administrators Association (NASAA) that uncovered a wide disparity in how broker-dealers disclose the fees they charge customers and questionable practices regarding broker-dealer fee charges and markups.

The 2014 report recommended that NASAA work with FINRA and the broker-dealer industry to develop a model fee disclosure that is simple to read, easily accessible, and can be used effectively by investors to understand and compare fees. The report also suggests greater investor education to help investors find and understand the fees they are being charged and calls for the creation of a task force to work with industry in standardizing the language, placement, and structure of fee disclosures similar to the model for simplified fee disclosed voluntarily implemented by the banking industry. Finally, the report recommends that individual NASAA member jurisdictions review the issues raised regarding disclosure and fee markups.



Executive Summary

The survey found that investors generally appear confused about whether their brokerage firm charges fees to service and maintain their accounts and the cost of those fees, despite current regulatory requirements related to disclosure. While broker-dealers may be complying with the technical requirements governing fee disclosures, our research shows that improvements are needed to raise awareness among investors of the costs associated with their brokerage accounts.

Fees are important to investors, but a general lack of standardization and clarity in disclosure has left investors unaware of how much their brokerage charges for the service and maintenance of their investment accounts. An overwhelming majority of investors indicated their preference to have fee disclosures made in a graphical format with uniform and easy-to-understand language. Greater transparency and improved disclosure would allow investors to quickly and easily compare prices, products and firms.

The survey results identified three areas of interest:

- ▶ The need for enhanced fee disclosure;
- ▶ Investor confusion about brokerage service and maintenance fees; and
- ▶ The importance of fees to investors.

Executive Summary

Investors prefer clear and easy access to fee information

- ▶ Nearly eight of every 10 investors (79 percent) would prefer their brokerage firm to provide a separate chart that lists its service and maintenance fees in a format that is simple to read and understand; 9 percent of investors said their brokerage provides such charts.
- ▶ More than half of investors (65 percent) would prefer a direct link on their brokerage firm's website to a chart of service and maintenance fees; 8 percent of investors said their firm already provides such a link.
- ▶ Nearly all investors (88 percent) said they would like their brokerage to use standardized and uncomplicated terms to describe service and maintenance fees in order to help compare fees between different firms.

Executive Summary

Investor confusion about brokerage service and maintenance fees

- ▶ Brokerage firms routinely charge fees to serve and maintain brokerage accounts, yet nearly one-third (30 percent) of investors said their firm had no such charges and one-quarter (25 percent) indicated they did not know whether they were being charged.
- ▶ Of the investors who know they are being charged service and maintenance fees, more than half (52 percent) indicated that they did not know the amount of these fees.
- ▶ When asked whether they knew the amount of additional service and maintenance fees their brokerage firm charges for services that might be needed in the future, such as to transfer an their account to a different brokerage or obtaining documents from their brokerage, nearly three-quarters (71 percent) indicated that they did not know.

Executive Summary

Fees matter to investors

- ▶ Overall, investors place great importance on the amount of fees they are being charged by their brokerage to service and maintain their accounts.
- ▶ The vast majority of investors (81 percent) indicated the amount of fees they pay to service and maintain their brokerage account is important.
- ▶ Of those who said the amount of service and maintenance fees were important, nearly half (42 percent) said the amount of these fees is “very important.”

Detailed Findings: Screening Question

SCREENING QUESTION: Do you have a brokerage account to hold your stocks, bonds, mutual funds, and/or retirement assets, such as IRAs?

Those Who Answered: YES

Total: 30%

Gender

Male: 32%
Female: 29%

Age

18-34: 16%
35-44: 34%
45-54: 37%
55-64: 39%
65+: 36%

Ethnicity

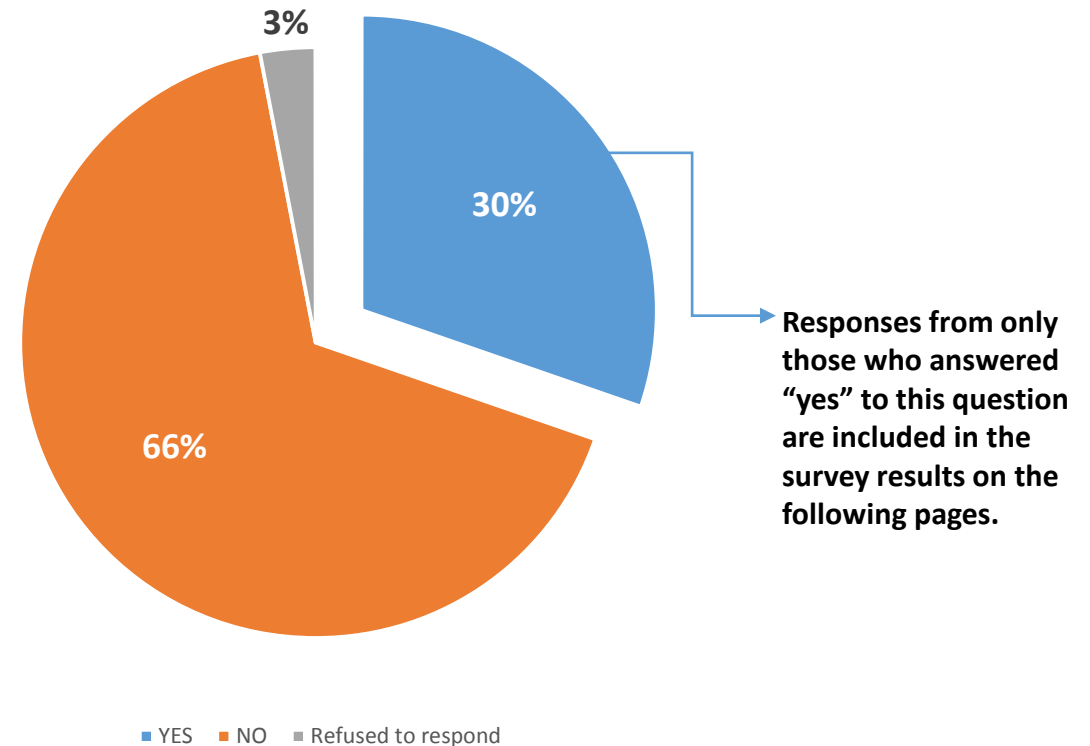
White: 36%
Black: 19%
Hispanic: 18%

Household Income

\$35,000 or less: 11%
\$35k-\$50k: 27%
\$50k-\$75k: 42%
\$75k-\$100k: 53%
\$110k+: 65%

Education

High School or less: 17%
Some College: 28%
College Grad: 53%



NASAA

Detailed Findings: Survey

1. Do you know whether your brokerage firm charges fees to service and maintain your brokerage account in addition to investment commissions?

Those Who Answered: NO or DON'T KNOW

Total: 55%

Gender

Male: 53%

Female: 58%

Age

18-34: 71%

35-44: 56%

45-54: 52%

55-64: 50%

65+: 53%

Ethnicity

White: 55%

Black: 65%

Hispanic: 55%

Household Income

\$35,000 or less: 71%

\$35k-\$50k: 54%

\$50k-\$75k: 58%

\$75k-\$100k: 56%

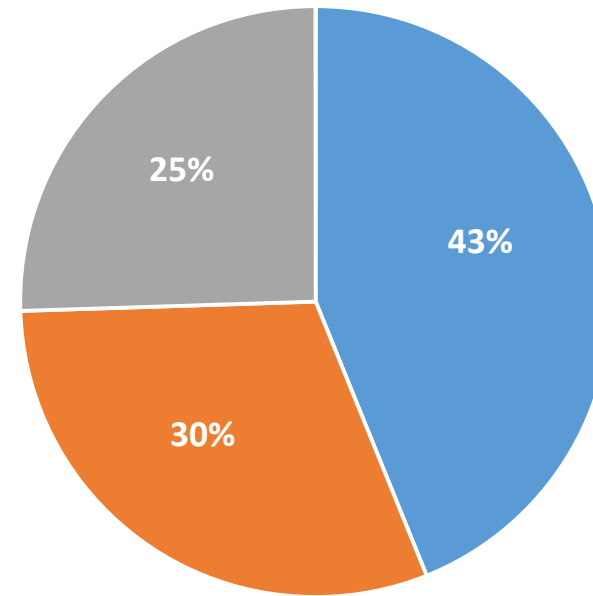
\$110k+: 46%

Education

High School or less: 60%

Some College: 56%

College Grad: 54%



■ Yes it Charges ■ No it does not charge ■ Don't know

Detailed Findings: Survey

Those Who Answered: NO

Total: 52%

Gender

Male: 49%
Female: 55%

Age

18-34: 58%
35-44: 55%
45-54: 60%
55-64: 40%
65+: 49%

Ethnicity

White: 52%
Black: 55%
Hispanic: 66%

Household Income

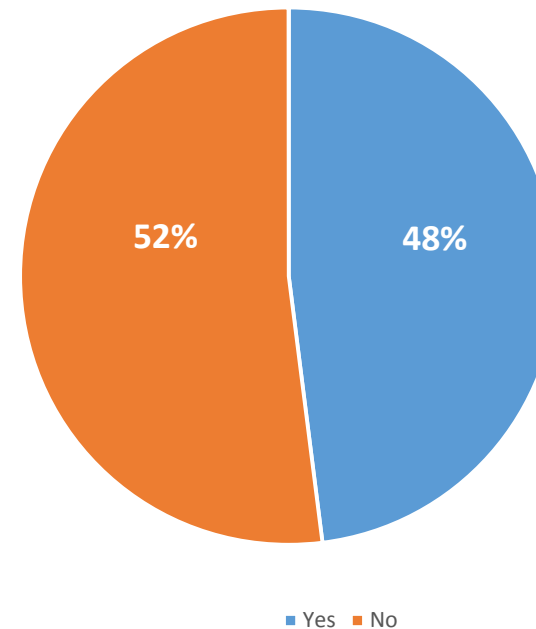
\$35,000 or less: 76%
\$35k-\$50k: 64%
\$50k-\$75k: 39%
\$75k-\$100k: 48%
\$110k+: 51%

Education

High School or less: 57%
Some College: 58%
College Grad: 48%

2. Do you know the amount of fees your brokerage firm charges for service and maintenance for your brokerage account?

Note: Asked only of investors who indicated they knew their brokerage charged service/maintenance fees.



Detailed Findings: Survey

3. Do you know the amount of additional service and maintenance fees your brokerage firm charges for services you might need in the future, such as transferring your account to a different brokerage or obtaining documents from your brokerage?

Those Who Answered: NO

Total: 71%

Gender

Male: 69%
Female: 74%

Age

18-34: 81%
35-44: 78%
45-54: 69%
55-64: 67%
65+: 66%

Ethnicity

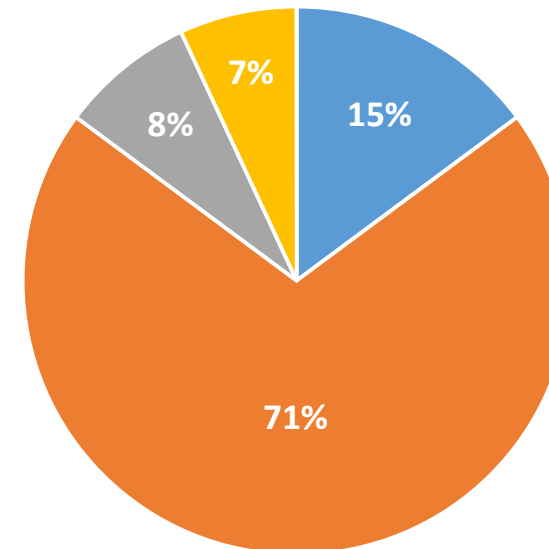
White: 72%
Black: 76%
Hispanic: 74%

Household Income

\$35,000 or less: 72%
\$35k-\$50k: 80%
\$50k-\$75k: 79%
\$75k-\$100k: 67%
\$110k+: 70%

Education

High School or less: 71%
Some College: 75%
College Grad: 70%



■ Yes ■ No ■ Brokerage firm doesn't charge additional fees for future services ■ Refused to Respond

Detailed Findings: Survey

4. How important is the amount of fees you pay for services and account maintenance over the lifetime of your account?

Those Who Answered: VERY OR SOMEWHAT IMPORTANT

Total: 81%

Gender

Male: 80%
Female: 82%

Age

18-34: 82%
35-44: 77%
45-54: 86%
55-64: 86%
65+: 75%

Ethnicity

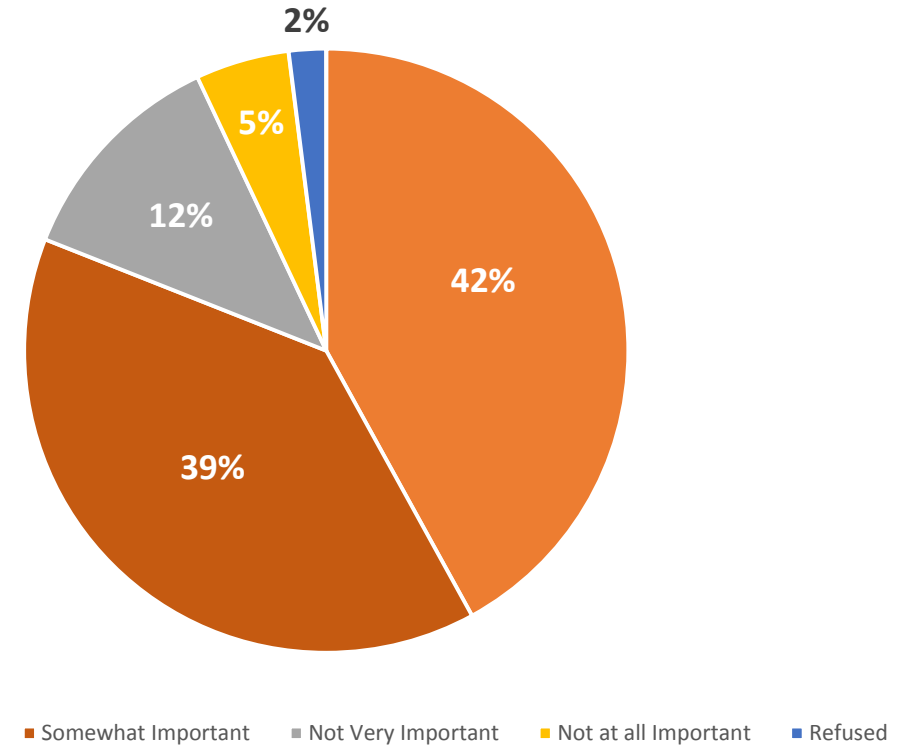
White: 81%
Black: 88%
Hispanic: 74%

Household Income

\$35,000 or less: 76%
\$35k-\$50k: 84%
\$50k-\$75k: 79%
\$75k-\$100k: 82%
\$110k+: 83%

Education

High School or less: 77%
Some College: 83%
College Grad: 82%



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Detailed Findings: Survey

5. Would you like your brokerage firm to provide a separate chart that lists its service and maintenance fees that is simple to read and is easy to understand?

Those Who Answered: YES

Total: 79%

Gender

Male: 79%
Female: 78%

Age

18-34: 84%
35-44: 89%
45-54: 85%
55-64: 80%
65+: 60%

Ethnicity

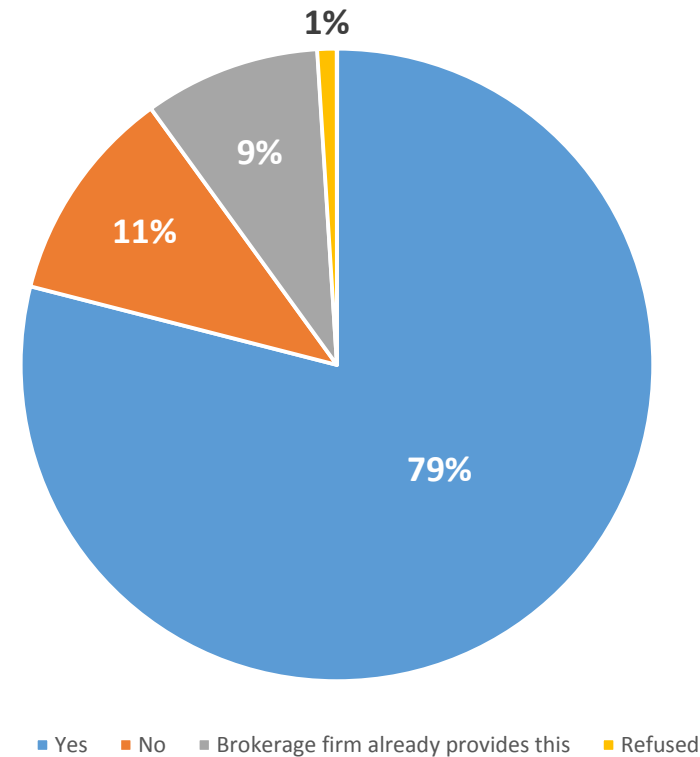
White: 78%
Black: 78%
Hispanic: 82%

Household Income

\$35,000 or less: 79%
\$35k-\$50k: 83%
\$50k-\$75k: 79%
\$75k-\$100k: 81%
\$110k+: 83%

Education

High School or less: 71%
Some College: 82%
College Grad: 81%



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Detailed Findings: Survey

6. Would you like a direct link on your brokerage firm's website to a chart of services and maintenance fees?

Those Who Answered: YES

Total: 65%

Gender

Male: 67%
Female: 63%

Age

18-34: 74%
35-44: 82%
45-54: 74%
55-64: 62%
65+: 39%

Ethnicity

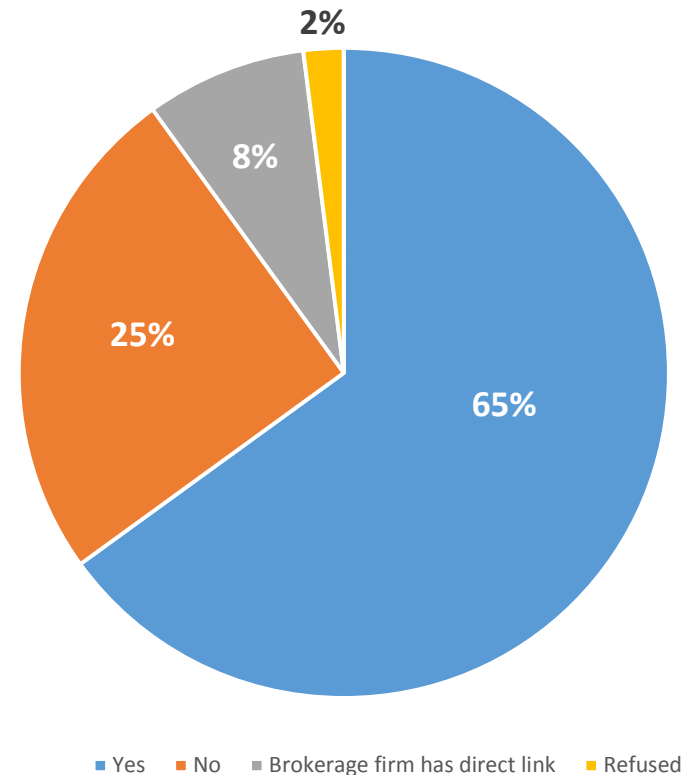
White: 64%
Black: 66%
Hispanic: 62%

Household Income

\$35,000 or less: 54%
\$35k-\$50k: 64%
\$50k-\$75k: 65%
\$75k-\$100k: 73%
\$110k+: 72%

Education

High School or less: 58%
Some College: 63%
College Grad: 69%



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Detailed Findings: Survey

7. Would you like to see brokerage firms use standardized and uncomplicated terms to describe service and maintenance fees in order to help you compare the fees between different firms?

Those Who Answered: YES

Total: 88%

Gender

Male: 89%
Female: 86%

Age

18-34: 88%
35-44: 91%
45-54: 91%
55-64: 91%
65+: 79%

Ethnicity

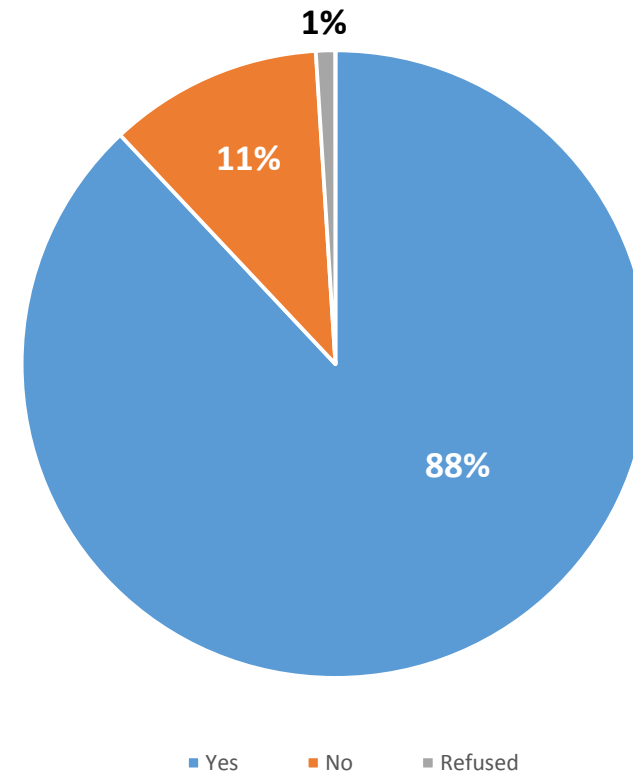
White: 88%
Black: 82%
Hispanic: 86%

Household Income

\$35,000 or less: 82%
\$35k-\$50k: 93%
\$50k-\$75k: 89%
\$75k-\$100k: 92%
\$110k+: 91%

Education

High School or less: 81%
Some College: 90%
College Grad: 89%



Questionnaire

On another subject...

When answering the next few questions, please remember that your information will be kept confidential and your answers will be looked at in the cumulative only.

- N1 Do you have a brokerage account to hold your stocks, bonds, mutual funds, and/or retirement assets, such as IRAs?
1. YES
 2. NO
 - 99 REFUSED

IF HAVE A BROKERAGE ACCOUNT, N1 (01), CONTINUE.
ALL OTHERS SKIP TO NEXT SECTION

The next few questions ask about the service and account maintenance fees that may be charged by your brokerage firm for your brokerage account over its lifetime. It is NOT about money you pay as commissions to buy or sell your investments. When answering the next few questions, if you have more than one brokerage account and/or you work with more than one brokerage firm, please answer the questions for the brokerage account in which you use most often.

- N2 Do you know whether your brokerage firm charges fees to service and maintain your brokerage account in addition to investment commissions? Would you say...
(READ ENTIRE LIST BEFORE RECORDING ONE ANSWER)

- 01 Yes, it does charge fees to service and maintain your brokerage account in addition to investment commissions
- 02 No, it does not
- 03 Or, you don't know
- 99 REFUSED



Questionnaire

[ASK IF N2 (01)]

N3 Do you know the amount of fees your brokerage firm charges for service and maintenance of your brokerage account?

- 01 YES
- 02 NO
- 99 REFUSED

N4 Do you know the amount of additional service and maintenance fees your brokerage firm charges for services you might need in the future, such as transferring your account to a different brokerage or obtaining documents from your brokerage?

- 01 YES
- 02 NO
- 98 BROKERAGE FIRM DOESN'T CHARGE ADDITIONAL FEES FOR FUTURE SERVICES
- 99 REFUSED

N5 How important is the amount of fees you pay for services and account maintenance over the lifetime of your account? Would you say...

(READ ENTIRE LIST BEFORE RECORDING ONE ANSWER)

- 01 Very important
- 02 Somewhat important
- 03 Not very important
- 04 Not at all important
- 99 REFUSED

Questionnaire

- N6 Would you like your brokerage firm to provide a separate chart that lists its service and maintenance fees that is simple to read and is easy to understand?
- 01 YES
 - 02 NO
 - 98 BROKERAGE FIRM ALREADY PROVIDES THIS
 - 99 REFUSED
- N7 Would you like a direct link on your brokerage firm's website to a chart of service and maintenance fees?
- 01 YES
 - 02 NO
 - 98 BROKERAGE FIRM HAS DIRECT LINK
 - 99 REFUSED
- N8 Would you like to see brokerage firms use standardized and uncomplicated terms to describe service and maintenance fees in order to help you compare the fees between different firms?
- 01 YES
 - 02 NO
 - 99 REFUSED

About NASAA

The North American Securities Administrators Association, Inc. (NASAA) is the non-profit association of state, provincial, and territorial securities regulators in the United States, Canada, and Mexico.

For more information, please visit www.nasaa.org.

