Education, Cognitive Performance, and Investment Fees

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Key Findings and Policy Implications

This paper examines the association between education and cognitive performance, rollover decisions in retirement savings plans, and investment fees. It uses a database that combines administrative records from the U.S. Department of Army with financial activity records from the federal Thrift Savings Plan (TSP), and covers both federal civilian employees and uniformed service members. The paper finds that:

- Among employees who separate from federal government employment, and who have the option to remain invested in the TSP or roll over their savings into another retirement savings plan, at least a third of balances are rolled over from the low-fee TSP to a relatively higher-fee IRA.
- Contrary to our hypothesis, the propensity to roll over balances from the low-cost TSP to the relatively high-cost IRA is positively associated with both educational attainment and cognitive performance, as measured by Armed Forces Qualification Test scores.
- However, among those rolling balances out of the TSP, people with more education and higher test scores do choose lower asset management fees at the institutions that receive the rollover funds.

While education and test scores are not identified as strong predictors of investor behavior in this study, the finding of any positive association between education and investment fees has interesting potential policy implications. One interpretation, for example, is that people with more education are more likely to perceive that they know what they are doing, and to act more proactively, such as rolling over plan balances to gain greater control, even when higher fees result.

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