

## Financial Sophistication and Conflicts of Interest: Evidence from the Investment Menus Offered in 401(k) Plans

### **English abstract**

We analyze the investment menus offered within 401(k) pension plans to the employees of the largest finance and nonfinance firms. Finance firm employees allocate less to sponsor stock and options affiliated with the trustee as compared to employees of other firms. In addition, the selection of mutual funds by pension plans sponsored by a finance firm with an independent trustee is more sensitive to past performance and less biased towards funds affiliated with the trustee. These findings suggest that financial literacy among the plan participants and sponsoring company can mitigate inefficiencies in 401(k) menus. However, financial literacy alone is not sufficient to eliminate inefficient options from the menu, because the higher performance sensitivity and reduced favoritism appear only among pension plans of finance firms governed by an independent external trustee.