Financial planners face new regulations

Under a new set of guidelines proposed by the U.S. Department of Labor this week, people who give advice to people about retirement planning would be subject to more stringent rules about potential conflicts of interest.

BILL MOAK

We've been in the midst of baby boomer retirement for the past decade or so, and while the last of the boomers still have a few years before reaching the age where they can draw Social Security, we have already seen unprecedented numbers of Americans taking their retirement. Some estimates suggest holders of 401(k)s, IRAs and other retirement assets will be investing more than $7 trillion by 2016. Since there's lots of money to be made in helping seniors figure out how to make the most of their retirement savings, services to seniors are skyrocketing. But what happens after the transaction may not be clear to investors, particularly when and how agents are compensated from commissions, or whether their products are actually in the best interest of their clients. For example, if an adviser has an incentive to sell products that generate higher commissions — but which don't necessarily suit your needs — that could be considered a conflict of interest.

The new proposed regulations, while far from a done deal, would cause profound changes to 40-year-old rules. The intent is to close loopholes that could allow broker-dealers, insurance agents and other financial planners for 401(k)s and IRAs to receive payments from mutual fund companies or similar interests without informing their customers.

"A White House Council of Economic Advisers analysis found that conflicts of interest result in annual losses of about 1 percentage point for affected retirement savers — or about $17 billion per year in total," noted an article on the Department of Labor's website. "To demonstrate how small differences can add up: A 1 percentage point lower return could reduce your savings by more than a quarter over 35 years. In other words, instead of a $10,000 retirement investment growing to more than $38,000 over that period after adjusting for inflation, it would be just over $27,500."

A key provision of the proposed rules would require that a financial adviser act as a fiduciary, who has legal and ethical obligations to look after the client's own interests first.

"This boils down to a very simple concept: If someone is paid to give you retirement investment advice, that person should be working in your best interest," said Secretary of Labor Thomas E. Perez. " Un-

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der the proposed rule, retirement advisers can be paid in various ways, as long as they are willing to put their customers' best interest first."

One group, the Securities Industry and Financial Markets Association, wasted no time in voicing its determination to analyze the rule. It and other groups have vigorously opposed previous attempts to address the issue.

"This is a voluminous rule where the fine print matters," said the association's president and CEO, Kenneth E. Bentsen Jr. "We want to ensure it protects investor choice and doesn't unnecessarily reduce access to education or raise costs, particularly for low- and middle-income savers. With so much at stake, we will thoroughly review the rule and its impact on investors and express our views in the public comment period."

Contact Bill Moak at moakconsumer@gmail.com.